EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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RECRUIT COSMOS
Testing time for Takeshita
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World News

Coalition in Sudan under threat of dissolution

Sudan's crisis-hit coalition government is expected to be dissolved today but prime minister Sadiq al-Mahdi may stay in power following an eleventh-hour reprieve with support from trade unions, political parties and armed forces for a renewed bid to end the six year civil war. Page 4

Venezuela toll

The death toll from nationwide rioting in Venezuela stood at 246 as a government was curfew lifted. Page 3

Smelter row

A row is brewing between the West German and Italian governments over Rome's attempts to delay closure of the smelter at a Naples steelworks. Page 2

Crash inquiry

British Rail signalling and possible driver error are under investigation after the second London rail crash in three months, in which five people died. Page 9

Baker in Vienna

US Secretary of State James Baker arrived for the opening of East-West arms talks with Soviet Foreign Minister Eduard Shevardnadze. Page 2

Kabul fighting

Afghan army units resumed firing on mujahideen rebels in hills around Kabul as a supply convoy arrived from the Soviet Union. Page 4

Water failure

Mrs Thatcher's acknowledgement that the UK Government failed to "sell" water privatisation effectively has been echoed by water authority chiefs. Page 9

Walesa plans

Solidarity leader Lech Walesa announced tentative plans to step down as talks on Poland's future hit new difficulties. Page 3

Ashdown call

Mr Paddy Ashdown, leader of the British Social and Liberal Democrats, has renewed his call to the Social Democratic Party (SDP) for by-election pacts. Page 8

Fighter go-ahead

The Bush Administration is set to give the go ahead for a $1.2bn collaborative project with Japan to produce an advanced version of the F16 fighter. Page 3

Italian relations

A warming of relations between Italy's Socialists and Communists has been abruptly ended by Mr Bettino Craxi, Socialist Party leader. Page 2

Kosovo unrest

Yugoslav authorities tightened their grip on Kosovo Province, ordering three ethnic Albanian officials to be investigated for counter-revolution.

Sri Lanka battle

Indian troops killed up to 50 Tamil guerrillas in Sri Lanka in battles against bases on the island, a foreign ministry official said.

Rushdie support

Actress Isabelle Adjani read from The Satanic Verses in support of author Salman Rushdie as she was named France's actress of the year.

Norwegian jobless

Norway's minority Labour government announce a package of emergency measures to cut unemployment. Page 2

11 die in Lhasa

One policeman and 10 demonstrators were killed when police fired on pro-independence rioters in the Tibetan capital of Lhasa

Austrian bishop

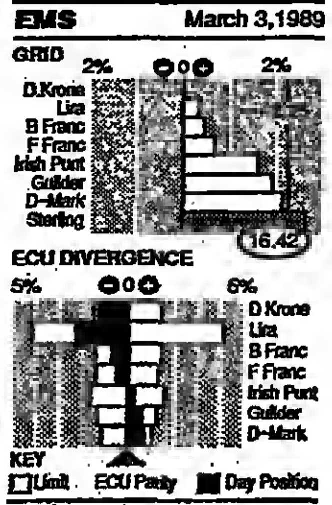
Conservative priest Klaus Kueng has been installed as bishop of Bregenz, as a rift widened between the Vatican and Austrian Catholic organisations angry at seeing their appointments overruled.

Business Summary

Toshiba looks for computer factory site in Europe

Toshiba, the Japanese electronics company, is looking for a European site to manufacture its portable computers. The favoured locations are West Germany, the UK and France. It would be the first Japanese computer factory in Europe. Page 6

EUROPEAN Monetary System: Rumours circulated of an early realignment of the EMS on Friday, as the Italian lira remained the weakest member of the system, in spite of a 1 point rise to 13.5 per cent in the Bank of Italy's Bank of Italy's discount rate. The French franc has shown a strong tone in the EMS of late and is now less likely to be part of any devaluing group. Lower French inflation, moving nearer to West German levels, is providing the franc with German levels, is providing the franc with support. Currencies other than the D-Mark were helped by the Bundesbank council's decision to leave official West German interest rates unchanged last week, despite strong speculation that rates would move up.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move by more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (Ecu), itself derived from a basket of European currencies.

EASTERN Airlines, the US carrier, faces a threat to its survival after ground crew strike paralyses flights and strands passengers. Page 4

CONTINENTAL Bank of Chicago claims it has a unique status in offering futures and options trade and over-the-counter products. Page 22

THE McKINSEY consulting group has come out in support of Plessey in its takeover battle against General Electric Company and Siemens. Page 22

EUROBOND houses are set to alter procedures for issuing bonds amid concern that market practices are driving away investors when most banks in the market are already losing money. Page 20

PRINTRAK, the subsidiary of De La Rue, a UK security printing company, has won a $5m order for a fingerprint recognition system from the Dutch Government. Page 25

BURTON GROUP, the clothing and department store multiple, has resurrected a 56-year-old menswear company, Huttons, for its first assault on clothing for "older" men. Page 10

HAYS, the UK business services group which was bought out by the management in October 1987, is considering a $258m flotation by spring next year. Page 25

BANCO SANTANDER has been authorised by US Federal Home Loan Bank Board to buy Puerto Rico's Federal Savings Bank in a deal worth $101.6m.

BRITISH TELECOM has agreed to reinstate UK's chat-line services, which allow groups of people to gossip over the telephone. Page 10

MEYER INTERNATIONAL, the UK builders' and timber merchant, is selling UBM Overseas to its management for nil net asset value. Page 25

CREDIT SUISSE restructuring is seen as a move by the bank chairman to become Switzerland's third largest bank. Page 23

LOT, Poland's national airline, will begin weekly flights to Israel this month, from Warsaw to Tel Aviv for first time since Six Day War.

MOET Hennessy Louis Vuitton (LVMH), the French luxury goods group, faces ongoing struggle for control of moves from the boardroom to the courtroom. Page 23

Tower admits nomination battle is hurting Bush

By Lionel Barber in Washington

MR JOHN TOWER yesterday acknowledged that the battle over his nomination for US Defence Secretary was hurting President George Bush but he refused to withdraw from the fray.

He said the Senate debate on his nomination "is not going to help anybody, certainly not me." However, he offered little hope to Republican loyalists who want him to withdraw to prevent further damage.

He argued that to withdraw now would only damage Mr Bush's authority because it would undermine the principle that an elected President has the right to choose his Cabinet.

During a television interview yesterday ahead of this week's expected Senate vote, he came close to conceding defeat as he he denounced his "faceless accusers" and "hypocritical senators." However, Mr Tower, looking bitter and dejected, pledged to fight on: "I have no plans to withdraw because the President does not want me to withdraw."

The White House campaign to confirm Mr Tower, who has been under incessant attack for personal and financial improprieties, has noticeably slackened. Mr Dan Quayle, Vice President, and Mr John Sununu, White House chief of staff, who have led the fight, were on the ski slopes yesterday.

Republican commentators have begun to criticise the White House and Mr Bush for mishandling the affair which epitomises the Administration's slow start and its appearance of inertia. Already comparisons are being drawn with the ineffective Carter presidency.

Mr Tower – who has tried everything, including an oath to give up drinking, to win confirmation – acknowledged in the CBS interview yesterday that he was still drinking wine with meals but said: "It is so little, it really does not matter."

Senators debating the Tower nomination last week displayed a partisanship rarely seen in the upper chamber. Republicans have denounced the Democrats for character assassination, while Democrats have pleaded that Mr Tower's alleged womanising, his ties to defence contractors, and his drinking problems make him unfit to run the Pentagon.

The most lasting damage may be to the confirmation process through which the Senate is empowered to "advise and consent" on certain Administration appointments. Many Senators are unhappy about the way questions of character rather than ability have held sway in the Tower affair; some are also complaining about the reliability of the FBI report on Mr Tower.

These doubts are expected to be fuelled when, after prolonged delay, Mr Lawrence Eagleburger, goes before the Senate Foreign Relations committee for confirmation as the number two official at the State Department. Right-wingers are threatening to investigate Mr Eagleburger's ties to the Yugoslavian Government while employed at Kissinger Associates, a consulting firm set up by President Nixon's former national security adviser.

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De Klerk expected to press for Botha's resignation

By Anthony Robinson in Johannesburg

SOUTH AFRICA faces a political and constitutional crisis this week as Mr F W de Klerk, the recently elected leader of the ruling National Party, is expected to seek party support for the resignation of President P W Botha and an early general election.

A power struggle has been building up since President Botha told Mr de Klerk and three other senior cabinet ministers on Thursday that he intended to resume his executive powers after Easter.

In a subsequent press interview he repeated his intention to serve a full presidential term and added it was "too early" to speculate on serving another term. Mr Botha is in his seventh week of convalescence after suffering a "mild stroke."

Yesterday Mr de Klerk responded in a brief statement to the Sunday Star. He recalled that his original position was that the President should be allowed to recover before involving him "in penetrating talks about the implications of his retirement as chief leader of the National Party."

But, he added, this time was now "fast approaching."

"I intend to take this matter further this week within a party context."

The expected venue is the regular party caucus meeting on Thursday at which Mr de Klerk is expected to seek party support for a clarification of the relationship between the party leadership and the presidency.

The roots of the President's extensive powers used to derive from his control of the majority party in the white House of Assembly. Although Mr Botha gave up the party leadership on February 2, he still retains key powers.

Mr de Klerk is expected to argue that the current situation gives him the responsibility for running the country without adequate power. Presidential powers are being exercised by Mr Chris Heunis, acting President

The caucus meeting will be the moment of truth for Mr de Klerk. Mr de Klerk was not Mr Botha's choice as new party leader. Since taking over, however, he has impressed many by his more open managerial style and two policy speeches in which he signalled faster reform of apartheid structures and laws, and called on black leaders to discuss a framework for the future.

Warner merges with Time to form world's largest media group

By James Buchan in New York

TIME and Warner Communications of the US are merging their businesses to form a $15bn company which will be the world's largest media and entertainment group.

The deal is by far the most aggressive and challenging move yet as communications groups jockey for position in the worldwide market. It is also the first big initiative for years from the US publishing and entertainment industry, which has lost control of several major markets to foreign ownership since the beginning of the 1980s.

The new company, to be called Time Warner, will have sales of nearly $9bn from a dominant position in the production and distribution of films, television programmes, recorded music, books and magazines.

Executives of both companies said that the deal would help US business compete against globally minded media empires being fashioned in Western Europe and the Pacific.

These include Bertelsmann of West Germany, Sony of Japan, Hachette of France and the media conglomerates under construction by Mr Robert Maxwell of the UK and Mr Rupert Murdoch.

In a joint statement, Mr Steven Ross, chairman of Warner, and Mr Richard Munro, chairman of Time, said the merger would "create a combined American entity with the resources needed to compete globally with anyone in our industry. Together we will be a worldwide leader in all our businesses, enabling us to create and innovate in ways each could only dream about before."

The deal, which was approved by both companies' boards on Saturday, has been constructed as a merger of equals. Time will acquire Warner by offering 0.465 of a Time share for each share of Warner. The combined value of the two companies in the stock market on Friday was $14.5bn.

Mr Ross and Mr Munro will share control as co-chairmen and co-chief executives. Twelve people will be selected as directors from each of the company's boards. However, Mr Nick Nicholas, who is president of Time, will eventually take sole management control.

Both companies have been under intermittent threat of takeover. But Mr Geoffrey Holmes, a senior vice president at Warner, said the merger plan had been under discussion between the three executives for two years. "This is not one of your shotgun mergers," he said. "This is a merger of the old-fashioned type that has not been done for 20 years."

The deal will construct a well-capitalised group with opportunities to produce and distribute entertainment in a proliferating variety of mediums.

The company will have world leadership positions in pay television and direct marketing of books and be number two in record production, cable television and magazines.

Lex, Page 20; America goes back to the future, Page 21

Alcatel close to signing $1bn Soviet contract

By Hugo Dixon and Terry Dodsworth in London

ALCATEL of France, Europe's largest telecommunications equipment manufacturer, is close to signing a contract to supply computerised telephone exchanges to the Soviet Union, in a deal which is expected to generate more than $1bn of sales over the next 10 years.

The deal, which would involve setting up a joint factory near Leningrad, would be one of the most significant examples ever of the transfer of high-technology goods and know-how to the Eastern Bloc.

Alcatel said at the weekend that, although the final contract had not been signed, it was "very confident" that one would be. It was not a question of "if" the contract was signed, but "when."

Computerised exchanges are sophisticated pieces of equipment used to route telephone calls from one destination to another. In the past, Western governments have prevented their manufacturers from exporting such products to East Bloc countries, partly because they feared they could be used for high-speed military communications.

However, the Co-ordinating Committee on Multilateral Exports (Cocom), the international body which vets sensitive exports to the Eastern Bloc, relaxed some of its restrictions last September. Since then, there have been a number of small deals involving the export of computerised exchanges to Eastern Europe.

Alcatel's proposal, which dwarfs these other deals, has two stages. In the first, Alcatel's Belgian subsidiary, Bell Telephone Manufacturing, would supply the Soviet Union with 250,000 lines of its System 12 digital exchanges. These are understood to be low-speed exchanges, which would be suitable only for civilian use.

In the second stage, BTM would form a joint venture with Krashna Zaraya, a Russian company, to assemble and carry out the final customer engineering for the exchanges near Leningrad.

This factory would have the capacity to make 1m to 1.5m lines a year.

The Belgian Government has already given its approval to the first stage of the deal. However, Alcatel said the Government was still waiting for Cocom advice on the second part of the deal, which is considered more sensitive.

Alcatel said the proposal was not "full technology transfer," but was more than local assembly. There was a possibility that the level of technology transfer could be upgraded later on if the Cocom rules were relaxed.

There are about 36m lines in the Soviet Union, according to the Telecommunications Research Centre, the UK-based market analysts. The plan is to increase the number of lines to 100m by the year 2000.

TRC is forecasting that the Soviet Union will spend $7.1bn on telephone exchanges in 1995, up from $2.7bn in 1986.

Because of the scale of the investment, Mr Jack Stockdale, TRC's managing director, believes that the Soviet Union will have to do deals with other Western manufacturers

EC aid urged at ozone meeting to help develop CFC substitutes

By John Hunt, Environment Correspondent, in London

PROPOSALS to provide European Community financial aid, technical assistance and information to help developing countries introduce substitutes for chemicals which damage the ozone layer were put forward yesterday by Mr Carlo Ripa di Meana, the EC Environment Commissioner.

He is examining the possibility of providing the aid under the Lomé convention by which the EC assists African, Caribbean and Pacific countries.

Speaking at the international conference to save the ozone layer, which opened in London yesterday, he said it should be possible for the complete elimination of chlorofluorocarbons (CFCs) in EC countries to be brought forward to 1996-97, ahead of the end-of-century target set last week by Community environment ministers.

He thought an 85 per cent reduction in their use could be achieved by 1995. Mr Nicholas Ridley, the UK Environment Secretary, endorsed that figure and said he felt a total ban by 1996-97 was possible in principle.

One of the main themes to emerge at the start of the three-day conference was pressure by the developing countries for Western aid to help their transition to CFC substitutes.

The other theme was attempts by the UK and other countries to persuade all developing countries to sign the Montreal Protocol, under which use of CFCs would be halved by the end of the century.

Picture: Ashley Ashwood

Kenyan President Daniel Arap Moi

Mrs Margaret Thatcher, the UK Prime Minister, made it clear in a brief opening statement that she wanted the protocol tightened when it was reviewed in Helsinki next month.

She said many countries, including the UK, were convinced of the need to accept higher targets and shorter deadlines for the phasing out of CFCs.

In an opening speech, President Daniel arap Moi of Kenya backed the British position when he urged Third World countries to sign the protocol. He also made a strong appeal for Western technological assistance which would enable developing countries to avoid the increased use of CFCs

These man-made substances are the main products used in refrigeration and in the manufacture of plastic foam. They are also used in aerosols, although this is rapidly being phased out in many countries.

India and China, the two most populous countries, are giving the West most concern over the possible massive increase in CFCs. They are not covered by the convention and neither has signed the Montreal Protocol. Mr Di Meana indicated, however, it might eventually be possible to include them in EC aid.

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Mieczyslaw Wilzek, Poland's millionaire Industry Minister, has no time for lazy workers. He believes they wait for warm weather before calling a strike at the Lenin shipyard so they can sunbathe Page 36

Nato gives impetus to conventional arms talks

By Robert Mauthner and Judy Dempsey in Vienna

NATO foreign ministers will try to give an early fillip to new negotiations on conventional force cuts in Europe, starting in Vienna today, by tabling detailed proposals on overall ceilings for the main categories of weapons.

At the same time, important bilateral meetings between ministers will be held on the sidelines of the conference. Mr James Baker, US Secretary of State, will have his first diplomatic contacts with Mr Eduard Shevardnadze, Soviet Foreign Minister, at which the Middle East will be high on the agenda.

Mr Shevardnadze will also have talks today with Sir Geoffrey Howe, British Foreign Secretary, part of which will be devoted to exploring how the Soviet Union could help to defuse the furore over Mr Salman Rushdie's book, The Satanic Verses. Mr Shevardnadze, who recently visited Iran, has said that Moscow is worried that the row, which has undermined relations between Iran and the West, could run out of control.

The Convention of Armed Forces in Europe (CFE) talks will bring together the 16 members of Nato and the seven Warsaw Pact countries, with the agreed aim of establishing "a stable and secure balance of conventional forces at lower levels in the whole of Europe from the Atlantic to the Urals". The 35 participants of the Conference on Security and Co-operation in Europe (CSCE) – all the European countries except Albania, plus the US and Canada – will meet at the same time to conduct further negotiations on confidence-building measures in Europe, as a follow-up to the Stockholm agreement of 1986.

The focus of the CFE negotiations, under terms of reference agreed early this year, will be on the elimination of disparities between Nato and the Warsaw Pact in weapons systems which can be used for large-scale offensive action, such as tanks and artillery, and surprise attack.

Nato, whose estimates of the comparative strengths of Western and Eastern forces show that the Warsaw Pact would have an advantage of 2.4 to one in tanks and artillery even after the unilateral reductions announced recently by Moscow and some of its partners, will be looking for large asymmetrical reductions by the Warsaw Pact.

The centrepiece of its opening proposal is to establish numerical limits for the three most threatening categories of arms. Nato is proposing that each side should be allowed to have no more than 20,000 main battle tanks, 16,500 artillery pieces and 20,500 armoured troop carriers in the area between the Atlantic and the Urals.

The Warsaw Pact is estimated by Nato to have 51,500 battle tanks there, of which 37,000 are Soviet tanks. After Moscow's unilateral reductions, the Warsaw Pact would still have 39,600, and the Soviet Union alone 27,000, compared with Nato's 16,424, according to Nato estimates. Though the Warsaw Pact's figures indicate a much smaller gap between the two sides, the fact that it has a substantial advantage in tanks is not disputed.

Other important elements of the Nato proposal are that no country should be allowed to hold more than 30 per cent of the proposed total holdings of the 23 participants in Europe in each equipment category. In the case of tanks, this would mean an entitlement of no more than 12,000 tanks for any country. Nato is also proposing limits for so-called "stationed" forces – those deployed in another country.

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The Middle East will be high on the agenda in talks between Baker, above, and Shevardnadze, below

Italian bank rates rise to dampen demand

By John Wyles in Rome

BANK interest rates will rise in Italy today as a result of the Government's attempt to regain political authority and dampen domestic demand through a steep increase in official interest rates.

The one-point rise in the Bank of Italy's discount rate, announced on Friday evening, has won the broad approval of independent economists and the strong condemnation of industry and commerce.

The timing of the rise in the discount rate to 13.5 per cent – the biggest rise in more than five years – was prompted by the publication on Friday of the largest trade deficit for one month, L4,289bn (£1.8bn) in January, in Italian history.

Mr Giuliano Amato, Treasury Minister, defended the move at the weekend as necessary to deal with rising liquidity in the economy amid signs that "people are moving from savings to purchases of goods". This was a reference to the Treasury's growing inability to sell debt with a maturity of more than a year.

Mr Sergio Pininfarina, president of the employers' organisation Confindustria, said the rate rise was "profoundly mistaken" and would damage industry's prospects.

By addressing one problem, the new move complicates others. It will add at least L7,000bn to the annual cost of financing the public debt and the budget deficit, the lira may rise still further, and higher import prices will exacerbate price pressures which took the annual inflation rate to 6.3 per cent in January,the highest level since mid-1986.

All this puts great pressure on the Government, whose chances of success are not high. Mr Ciriaco de Mita, the Prime Minister, is not relishing the task and seems to have lost his appetite for politics. He aims to have agreement within the coalition by Easter on "deep" spending cuts able to put the Treasury's medium-term plan back on course.

Mr de Mita has produced proposals for important economies in health and pensions, which were again attacked at the weekend by ministers heading the relevant departments. His proposals for raising transport charges are being criticised as inflationary, while proposals for economies in public administration are exercising the unions.

Craxi cools towards Communists

By John Wyles

A RECENT ceasefire and warming of relations between Italy's Socialists and Communists has been abruptly ended by Mr Bettino Craxi, the Socialist Party leader.

He has forced an indefinite postponement of a meeting, due to take place in Brussels tomorrow, of the Union of European Community Socialist Parties which was to have been important in reconciling European social democracy with Italian Communism.

Mr Craxi's ostensible reason is the damage to his feelings caused by a remark published and attributed to Mr Achille Occhetto, the Communist Party (PCI) leader, that Mr Craxi was the biggest obstacle to the PCI's membership of the Socialist International.

Despite Mr Occhetto's denials that the PCI has applied to join Socialist International and that he held Mr Craxi responsible for blackballing, the Socialists, or PSI, moved with such haste to torpedo the Brussels meeting that there is a suspicion that it was looking for any pretext to do so.

Mr Craxi and Mr Occhetto are both struggling to lead the Italian left and Mr Craxi was only interested in sponsoring the overtures of the PCI, the bigger party, to the non-Communist European left providing he could control them.

Recently, however, Mr Occhetto has visited the West German SPD, as well as Mr Mikhail Gorbachev in Moscow, and Mr Craxi's move is a back-handed compliment on his public relations victories.

The European parliament elections in June are assuming in Italy all the significance of a general election and it was always difficult to believe that Mr Craxi could fight them on a basis of amicable competition with the PCI.

Norwegian PM meets opposition from party

By Karen Fossli in Oslo

MRS GRO Harlem Brundtland, Norway's Prime Minister, who will face a general election in September, failed yesterday to stamp her authority on her Labour Party's conference, in a battle over the election of a deputy leader.

This resulted, for the first time in the party's history, in dual deputy leaders.

Mrs Brundtland objected to the candidature of Mr Thorbjoern Berntsen, a working-class socialist of the old school. He does not fit the party's current pragmatic commitment to the market economy and dilution of the traditional socialist message.

She failed to convince Mr Finn Kristiansen, Industry Minister, to seek the position as deputy leader. He also comes from the blue-collar ranks, would have been a strong candidate for the position and might have been favoured over Mr Berntsen by the party.

She then turned to Mr Gunnar Berge, Finance Minister, another man with a blue-collar background, as her candidate.

It is understood that she, along with her supporters who include ministers, having failed to secure his appointment, then threatened to resign unless her alternative plan for dual deputy leadership was recognised.

Most other Norwegian parties, including the Conservative, operate with a dual deputy leaders. Their responsibilities are divided between political and administrative duties.

Mrs Brundtland was accused of manipulating the election committee, whose mandate it was to decide on Labour's new deputy leader.

Mr Einar Foerde – the current deputy leader, who is leaving to take control of the state-owned television network – warned that if common ground on the issue were not achieved the party would suffer in the elections.

Oslo to spend £466m to tackle unemployment

By Karen Fossli

NORWAY'S minority Labour government has announced a NKr 5.4bn (£466m) package of emergency measures designed to cut unemployment – now at a high 4 per cent – by a third.

The Government, facing elections this year, is embarrassed by a jobless total of 86,000 people. Tight economic policies, implemented during the last two years to improve Norway's oil-dependent economy, have pushed unemployment to a record level.

However, the emergency measures will take their toll on the Government's fiscal budget, which will now show a NKr 3.4bn deficit, or 0.5 per cent of GNP, compared with a NKr 1.2bn surplus estimated when the budget was approved last December.

Mr Bjoern Skogstad-Aamo, Secretary of Finance, said the package would have a short-term impact on the labour market but a long-term impact on the supply side.

He also said the current account deficit for this year would be reduced to NKr 2bn – much less than the NKr 11bn previously estimated. The Government also wants to introduce a draft wage law, subject to parliamentary approval, to restrict wage growth to 3.7 per cent

Bagnoli steel plan doubt angers Bonn

By William Dawkins in Brussels

A ROW is brewing between the West German and Italian governments over Rome's attempts to delay the controversial closure of the smelter at the Bagnoli steelworks in Naples.

Mr Dieter von Wuerzen, Bonn's junior Economics Minister, will ask the European Commission to report to the EC's 12 industry ministers today on whether Italy is sticking to an undertaking it gave to its Community partners to close the blast furnace, with the loss of about 2,000 jobs, by the end of June.

The signs are that Rome will continue to maintain a discreet silence, doing nothing to dispel the fears of a politically influential West German steel industry that resents competing against subsidised Italian steel. Inquiries from an anxious Commission have brought no response from the Italian government. Rome knew of the German concerns but had no immediate plans to ask anything of the Commission, an Italian spokesman said.

Italy won EC clearance, after great difficulty, late last year to pump L5,189bn (£2.2bn) into the country's ailing public steel industry, on condition that it closed 3.4m tonnes of annual capacity, including the Bagnoli furnace.

The deal provoked riots by steelworkers in Naples, which has high unemployment, plunging the Italian Government into disarray over the plant's future.

Rome now plans to take no decision on Bagnoli until the end of June. It is believed to be considering an appeal to the Brussels Commission for a six-month delay to give more time to implement job-creation schemes in Naples. Officials admit privately the extreme political difficulty of closing a recently modernised plant while steel demand is buoyant.

If Italy fails to close the Bagnoli smelter on time, it will not be able legally to pay any steel aid, unless it gets its EC partners' unanimous consent to change the agreement. This is unlikely.

The Commission has the power to force the repayment of illicit subsidies, if necessary through the European Court of Justice. Sir Leon Brittan, Commissioner for competition policy, wrote to the Italian Government requesting an explanation a month ago but has received no reply.

West Germany, the last member state to give a reluctant go-ahead to Italy's steel rescue plan, believes its steel companies have done more than most to shed jobs and surplus capacity. They argue it is Italy's turn to contribute to cutting the substantial excess in potential output that threatens the stability of the European steel industry – a view shared by the French and British competitors.

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Caracas wins $450m emergency loan from US

By Lionel Barber in Washington

THE US TREASURY has agreed in principle to extend a $450m (£260m) emergency loan to Venezuela, to help it weather its economic crisis.

In separate negotiations, a consortium of commercial banks, led by Chase Manhattan in New York, is preparing to add $600m to the Treasury loan as part of an international rescue package for the Caracas Government.

The rioting and looting in Venezuela, which until last week had been regarded as having one of the most stable political systems in Latin America, has dismayed policy makers in Washington and raised pressure for changes in US policy on Third World debt.

The Treasury loan is expected to be sealed in the next few days and will act as a bridge to a $453m International Monetary Fund loan, which has been tentatively approved. The Treasury funds would be repaid as soon as the IMF funds start flowing.

A monetary official in Washington said representatives of the month-old government of President Carlos Andrés Pérez had warned the Bush administration before the riots that the new Government in Caracas would not be able to pay interest on its foreign debt of $33bn.

Negotiations between the Treasury and Venezuela began immediately and were spurred by riots in Caracas and other cities last week.

An early political test of the Bush administration's intentions on debt policy comes today, when talks open between the Treasury and Latin American countries on a $23bn capital increase for the Inter-American Development Bank, one of the largest lenders to the region.

The capital increase has been held up for two years since the US, which provides 35 per cent of the bank's money, called for a veto over lending decisions.

Officials close to the talks said last week that prospects for an agreement were good, though they warned that the US was still pressing for further reforms in the running of the IADB. In the current political climate, whereby various Latin American countries, notably Mexico, are pressing for a more accommodating debt policy in Washington, resolution of the IADB dispute would send an important signal to the region.

The Latin American debtors argue that the US policy of more commercial bank lending, in return for economic reform, has merely helped the banks while depressing living standards and jeopardising democratic governments.

Venezuelan restrictions eased as week of violence ends

By Joe Mann in Caracas

ONE week after extensive civilian riots began in Venezuela, the Government has eliminated a 6pm-to-6am national curfew in 10 of the country's 20 states and has ordered elementary schools to reopen today.

Officials indicated that curfew restrictions would be eased even more this week, but at noon yesterday it remained in force from 8pm to 5am in Caracas, where 4m people – most of the country's population – live.

The Minister of the Presidential Secretariat, Mr Reinaldo Figueredo, said the official nationwide death toll had reached 246 on Saturday, while 1,831 people were reported injured, most of them by firearms.

Some Venezuelan newspapers, however, said the number of dead could be double the official figure.

There have been no official estimates on the financial cost of last week's nationwide rioting and looting.

Scattered shoot-outs between civilians and troops occurred over the weekend in some of the capital's shanty towns, and a Caracas daily, El Nacional, reported 16 more deaths in fighting on Friday night and Saturday. Sanitary officials buried around 30 unidentified bodies in a mass grave in Caracas after they reached an advanced state of decomposition.

The Government is continuing an emergency distribution programme to provide basic food products to markets in the capital, where the worst rioting occurred. Heads of food processing companies met President Carlos Andrés Pérez at Miraflores palace at the weekend to discuss ways of maintaining a normal flow of products to the nation's markets in the face of dwindling supplies of raw materials.

Soldiers carried out house-to-house searches in slums and confiscated thousands of heavy appliances and other items suspected of being the booty of last week's looting. In some areas, where slum-dwellers apparently were not familiar with computers, residents called them "television sets with typewriters attached".

After days of fear and tension, the Caracas press carried some elements of humour over the weekend. El Diario de Caracas noted that even the Minister of Planning, Mr Miguel Rodriguez, had to join a long line of other citizens waiting to gain entrance to a foodstore. The minister was one of the chief architects of the star-crossed economic policy announced in mid-February.

The same newspaper ran a story on Saturday which said that former president Jaime Lusinchi, who left office on February 2, was enjoying a holiday at a health spa in Florida, as his country was going through a national emergency.

The paper noted ironically that the ex-president, who is blamed by many for leaving the Venezuelan economy in shambles, "doubtless deserves a rest after five years of difficult struggles in government".

Pinochet keeps Chile guessing

By Barbara Durr in Santiago

PRESIDENT Augusto Pinochet appears to want to keep Chileans guessing about his political future.

He declined at the weekend to dismiss the possibility that he would become a presidential candidate in the election in December, or that there would be a plebiscite this year to decide on constitutional changes.

General Pinochet has said for several mooths that he could not be a candidate because the constitution so prohibits. He also specifically said he would turn over power in March 1990, when a democratically elected president is to take office.

However, pro-government political forces are not united around a single presidential candidate, leaving them at a disadvantage against the 17-party opposition coalition, which is expected to run one candidate. With the right in disarray, Gen Pinochet may be re-thinking his possibilities as the one figure who can rally a broad range of conservatives.

His candidacy would only be possible after a change in the constitution, and Mr Carlos Cáceres, Interior Minister, recently mentioned the idea of putting various constitutional changes to the vote. The opposition has been asking for constitutional changes, but has not discussed with the Government which provisions to amend.

During a visit to southern Chile, Gen Pinochet said about his own candidacy: "It's too early to say".

Farm reform exacerbates Kremlin rift

By Quentin Peel in Moscow

PLANS for the radical reform of Soviet agriculture, which could spell the eventual demise of the cumbersome collective farm system, appear to have brought to a head profound ideological differences within the Soviet leadership.

At its heart is the question of how to change property relations in the Soviet system, to galvanise economic activity, without compromising socialism.

On Friday the ruling Politburo failed to reach agreement on its package of proposals on farm reform, to be presented to a full-scale plenum of the Communist Party central committee in the next two weeks.

The official Politburo communiqué published on Saturday morning after the two-day meeting said blandly that the 12-man Soviet leadership "deemed it necessary to perfect the documents, taking into consideration their discussion".

However, the apparent deadlock in the leadership followed a week of strikingly different speeches from key members, including most notably a staunch defence of the collective farms by Mr Yegor Ligachev, Mr Mikhail Gorbachev's erstwhile number two, and the leading conservative in the Kremlin.

The central issue in the agriculture debate is the question of property relations, and how to make the Soviet farm labourer once more the "master of his land", in Mr Gorbachev's words. The Soviet leader has made his plans for a leasehold system within the huge collective farms – reintroducing family farms, in effect – the central element in the reforms.

Mr Ligachev puts far less emphasis on leasehold, stressing instead the need for more resources to be spent to reverse the population drain from the countryside, and revamp the food processing industry. This would not threaten the traditional collective farm structure at the heart of Soviet agriculture.

It now appears that the central committee plenum, already postponed once from February to March, could be the scene for a showdown between the radicals and conservatives in the Kremlin power struggle.

However if Mr Gorbachev does not believe he can win the day – and the full central committee still has a conservative majority – then the outcome may be a compromise, leaving local authorities the power to interpret the reforms as they want. That would be seen in Moscow as a clear victory for the conservatives.

The politburo communiqué suggests that the calls for more radical reform may still win out. "It was pointed out at the meeting that the situation in rural areas, and the food supply situation, require radical changes in the socialist relations of production in the village," it said.

However, the outline of a compromise is also apparent. The Politburo declared itself in support of the statements about the need for combining various forms of property and types of economic activity – collective and state farms, agro-industrial complexes, processing enterprises, leaseholders, co-operatives, lease teams, farmsteads and individual smallholdings.

Mr Ligachev's support for the collective farms is likely to find a lot of support in the party organisations outside Moscow, where the switch to leasehold has been cautious. Most collectives are still allowing only a maximum five-year lease, and on financial terms dictated by the traditional farm bureaucracy.

Walesa hints at stepping down

MR LECH WALESA, leader of Solidarity, Poland's banned trade union, announced tentative plans to step down yesterday as talks on Poland's future hit new difficulties, Reuter reports from Warsaw.

Several hundred young demonstrators clashed with police in the Baltic port of Gdansk, where Mr Walesa was addressing a rally.

The clashes followed a march through the streets of Gdansk after Mr Walesa, who has often spoken of resigning before, had told 2,000 supporters outside the pro-Solidarity church of St Brygida that he might stand down but would not do so if hardliners gained control of the union, witnesses said.

"After Solidarity is re-legalised I should like to withdraw for four years if that is what you decide," he said.

The violence occurred outside Gdansk's main railway station, when police in riot gear attacked the demonstrators with batons after being pelted with stones.

Mr Walesa reiterated his appeal for the suspension of strikes and protests to give "round-table" talks between Solidarity and the Government a chance.

Iran resolute over Rushdie

IRAN said yesterday that Britain had not done enough in criticising Mr Salman Rushdie's book, The Satanic Verses, to prevent Tehran cutting relations, as it has said it will do tomorrow, Reuter reports from Nicosia.

Referring to comments by Mrs Margaret Thatcher, the British Prime Minister, and two of her ministers last week that the book offended Moslems, the Iranian news agency IRNA said: "These remarks . . . are aimed at breaking the deadlock the London government itself has created by adopting incorrect stands on relations with Iran and this is far from meeting the conditions set by the Majlis (Parliament)."

The Iranian Parliament voted last Tuesday to cut diplomatic ties with Britain in seven days unless London retracted its defence of Mr Rushdie.

In making their remarks, the British ministers insisted they still supported freedom of expression and called on Iran's spiritual leader, Ayatollah Ruhollah Khomeini, to withdraw the death threat he issued against Mr Rushdie last month.

IRNA, which on Saturday described Mrs Thatcher's remarks as an expression of sympathy for Moslems, said yesterday Britain had moderated its stand but not changed it.

"Political circles in Tehran maintain that the implementation of the Majlis' conditions is the only way for Britain to break the deadlock in her ties with Tehran," IRNA said. It added: "The withdrawal of all copies of The Satanic Verses and banning of its reprinting by the British Government would certainly bring London closer to the implementation of the Iranian conditions."

The Tehran Times said it saw a change in London's attitude. "It would seem the British Government has come to its senses after all and wants to hold back the avalanche of Moslem anger against the book authored by one of its citizens, an Indian-born Moslem. . . it may still be possible for a change to occur [before ties are severed] in view of the new attitude which the British leaders are beginning to adopt."

Leader of Canadian party to quit

By David Owen in Montreal

MR ED BROADBENT is to stand down as leader of Canada's left-of-centre New Democratic Party (NDP), after 14 years and four general election campaigns at the party's helm.

Mr Broadbent, 52, made the announcement at the party's national council meeting in Toronto. A successor will be chosen in the summer or autumn.

His decision comes less than four months after the last general election, which yielded 43 NDP MPs, more than ever before.

Despite this, the party reacted with disappointment to its third place. Having entertained high hopes of a long-awaited breakthrough in Quebec and the Maritimes, the party again failed to win a single seat east of Ontario.

Mr Broadbent, an accomplished intellectual with a PhD in philosophy and a passion for Bach and Billie Holiday, will continue to play an elder statesman's role in the party. He has held the Ontario car-making city of Oshawa for twenty years.

The race for the succession will be exceptionally open.

OVERSEAS NEWS

Sudan's premier wins reprieve in bid to end war

By Julian Ozanne in Khartoum

SUDAN'S beleaguered prime minister, Mr Sadiq al-Mahdi, won an eleventh-hour reprieve for his premiership yesterday, having received the support of the trade unions, political parties and armed forces for a renewed effort to end the country's six-year-old civil war.

A two-week political crisis, which threatened to bring Sudan to the brink of a military coup, appeared to have been resolved when agreement, endorsed by some 48 political parties and trade unions, was reached late on Saturday.

However, it did not win the backing of tha powerful National Islamic Front (NIF), and doubt clouds Mr al-Mahdi's prospects of negotiating a settlement of the conflict without NIF support.

The present government, a coalition of the prime minister's UMMA party and the fundamentalist NIF, is expected to be dissolved today.

The main plank of the agreement is broad acceptance of a peace accord signed last November by the Democratic Unionist Party (DUP) and the rebel Sudan People's Liberation Movement.

It called for the convention of a constitutional conference after four conditions had been met: the freezing of plans to introduce Islamic law (advocated by the front but deeply resented by the country's largely Christian south), the abrogation of all military pacts (seen as a reference to the government's increasingly close ties with Libya), lifting of the state of emergency, and the calling of a ceasefire.

Mr al-Mahdi denied that any pacts existed, and opposed the SPLA demand that the state of emergency be lifted before the ceasefire. His failure to develop the accord of last November led to the Unionist Party's resignation from the government in December.

It is now believed that the prime minister has been told by the DUP that the rebels will accept his position on military pacts. In return, the prime minister will refer his second objection to a committee, made up of both parties, for resolution.

If the SPLA accepts this, the government will formally endorse the peace plan immediately and prepare for the constitutional conference.

Soviet food convoy reaches Kabul

A CONVOY of several hundred trucks carrying food and fuel from the Soviet Union reached the Afghan capital virtually unscathed at the weekend following a deal struck between rebels and President Najibullah, AP reports from Kabul.

Afghan soldiers fire on Mujahideen positions along the Salang highway

Afghan officials said up to 600 trucks arrived from the Soviet border town of Termez and 300 more were expected yesterday.

Truck drivers reported only a single attack on the route down the Salang highway, from the Soviet border to Kabul, through territory held by Moslem rebels. The attack was apparently launched by a rival group not a party to the deal.

An Afghan official said President Najibullah and his left-wing People's Democratic Party of Afghanistan (PDPA) government struck a deal with a rebel commander controlling Kabul province and the Salang area to allow the convoy to pass safely.

Mr Abdul Fatah, a Third World envoy, said it was most likely tha rebel leader was Ahmad Shah Massoud, the most successful Mujahideen field commander in the nine-year fight against Afghan troops and the now-departed Soviat forces. Massoud is reported to have extended his reach to Kunduz province near the Soviet border.

"Yes there was a deal," said Mr Fatah. "Massoud does not stop food and fuel for Kabul now. The rockets were fired by Gulbuddin's men."

Mr Fatah was referring to Mr Gulbuddin Hekmatyar, a hardline Afghan rebel leader opposed to any compromise with President Najibullah.

A delegation headed by Mr Hekmatyar and representing Pakistan-based Afghan guerrillas left for Tehran yesterday to seek recognition for their government-in-exile, rebel sources said.

The group also plans to visit Saudi Arabia and other Moslem countries before a meeting of Islamic foreign ministers later this month, the sources said.

A guerrilla spokesman said that while in Tehran, Mr Hekmatyar would try to patch up differences with Afghan rebel groups based in Iran.

The Iran-based Shi'ite guerrillas boycotted last month's shura after the Pakistan-based gronps of the Sunni sect refused to give them more seats in the consultative council and the Government.

● With Soviet forces now out of Afghanistan, the US should try to reduce the influence of Islamic fundamentalists among Afghan guerrillas aiming to take over the Government, two US policy groups are recommending.

The two groups, who do not often find common ground, are Asia Watch, a private organisation dedicated to monitoring abuse of human rights, and the Heritage Foundation, the conservative study group regarded as close to the thinking of the former administration.

The two groups published separate analyses urging that US aid to the guerrillas be used as a lever to strengthen moderate elements in the rebel coalition hoping to oust the Soviet-backed Government.

Survival of Eastern Airlines in balance as strike takes hold

By James Buchan in New York

THE SURVIVAL of Eastern Airlines, the big US air carrier, hung in the balance yesterday as a strike by ground crew paralysed all but a fraction of its flights and left passengers stranded at airports all over the US, the Caribbean and Latin America.

As the strike ended its second day yesterday, the stricken airlina faced bankruptcy unless it could persuade enough of its pilots to cross picket lines established by the 8,500-strong machinists' union at the airline.

Eastern desperately needs pilots to pick up aircraft stranded at distant airports and bring them to its main hubs in the US.

But Eastern, which says it was losing $1m a day even before the strike began, said it was not yet considering bankruptcy. "Wa always said that was a last resort. We're not at the last resort yet," said Mr Robin Mattel, spokesman for the Miami-based airline.

Other airlines and rail carriers were yesterday bracing for a string of sympathetic picketing this week. Leading labour groups, including the AFL-CIO labour federation, are backing the International Association of Machinists as its 17-month fight with Eastern's management reaches a climax.

But the Bush administration is ready to bring forward immediate legislation to stop secondary picketing by Eastern employees if they take such action against railways and other forms of transport.

Mr Samuel Skinner, the Transportation Secretary, said yesterday: "We have legislation ready. If secondary picketing occurs, the President will send to the House and Senate legislation eliminating that right."

Eastern said yesterday that it hoped to get 125 Sunday flights moving, with a further 180 today.

This is just a fraction of the more than 1,000 regular daily flights and a severe disappointment to management, which believed it could run at least 260 flights a day over the weekend.

But it was some comfort after the catastrophic first day of the strike, when only 85 flights took off and as many as 100,000 passengers were either stranded or booked onto other airlines.

Palestinian uprising could worsen, says UK minister

By Andrew Whitley in Jerusalem

MR WILLIAM Waldegrave, a British Foreign Office Minister, is due to visit Jordan this morning, leaving Israel with a warning that the Palestinian uprising could worsen if the present opportunity for peace talks were missed.

Throughout his five-day visit, the minister made clear his view that continued military occupation of the West Bank and Gaza Strip was untenable.

In a speech in Jerusalem last night, Mr Waldegrave urged Israelis to test the change he said had taken place in the Palestine Liberation Organisation by opening talks with it under the umbrella of an international conference.

Mr Yitzhak Shamir, Israel's Prime Minister, insisted on Friday that the country would never deal with the PLO.

Governor to testify on HK accord

By Michael Marray in Hong Kong

SIR DAVID Wilson, governor of Hong Kong, will visit London later this month to give evidence before a parliamentary committee conducting an inquiry into transferring sovereignty of the colony to China in 1997.

Sir David will appear before the committee on March 22 with Sir Geoffrey Howe, British Foreign Secretary.

The governor is expected to be questioned on the drafting of the Basic Law, the constitution which will govern Hong Kong after 1997, and on provisions for democratic processes after 1997.

Committee members will visit Hong Kong between April 17 and 22 on a fact-finding mission, before proceeding to Peking for further investigations and talks until April 25.

Their inquiry coincides with the final period of consultation on the Basic Law, the second draft of which was released last Monday for public debate.

This is also the final chance for suggestions and amendments to the Draft Law be put forward.

Zhou Nan, Chinese Vice Foreign Minister, has been in Hong Kon for the last week.

He and Sir David have held discussions over progress on the Basic Law and other matters relating to the implementation of the Sino-British Joint Declaration which transfers the colony to China.

Zhou is one of the most influential Chinese figures on matters relating to Hong Kong, and headed the Peking side in negotiations which led to the signing of the accord in 1984.

While in Hong Kong, Zhou also met Peking officials based in the colony, including Xu Jiatun, director of the local branch of the New China News Agency.

Colombo plan for Indian pull-out

THE SRI Lankan Government has sent India a proposal which would supersede a 1987 accord designed to end the Tamil insurrection in Sri Lanka, Foreign Ministry officials said at the weekend, AP reports from Colombo.

Indian officials denied knowledge of any such proposal.

The draft, made available to the Associated Press news agency, does not mention the Tamil revolt against Sri Lanka's Sinhalese majority nor the Indian troops sent to disarm Tamil guerrillas and enforce the 1987 accord.

But, by seeking to supersede the accord, the proposal appeared designed to bring about the withdrawal of the Indian troops, whose departure has been demanded by Tamil rebels and Sinhalese militants.

India has said it would withdraw, but no date has been set.

President Ranasingha Premadasa of Sri Lanka, who took office two months ago, pledged during his election campaign to end India's military involvement in the civil war.

He said the 1987 accord would be replaced by a friendship treaty.

Mr Premadasa has asked India to begin withdrawing its troops from the north and east, where Tamil separatists have been waging guerrilla warfare since 1983.

More than 8,500 people, mostly Sinhalese civilians, have been killed in the last six years.

● Indian troops have killed 40 to 50 Tamil separatists in battles against guerrilla bases in the north-east of the island, an Indian official said.

"The troops smashed three camps of the Liberation Tigers of Tamil Eelam at Nayaru lagoon, about 20 km from Mullaitivu. It is said to be their biggest base in the area," the official said.

The official denied reports that hundreds of Tamil civilians had been killed and several villages destroyed, but said fighting continued.

Gandhi makes changes in party

By David Housego in New Delhi

MR RAJIV Gandhi, the Indian Prime Minister, has sought to reassert his leadership of the divided Congress (I) Party through important changes among provincial leaders and central government ministers, which began to emerge at the weekend.

The changes come in the wake of other moves – including last week's budget, concessions announced on Friday to Sikh opinion over the Punjab, and a redeployment of his personal advisers – that reflect Mr Gandhi's attempt to regain the political initiative before a general election this year.

The prime minister suffered a big setback in January by the defeat of his party in state elections in Tamil Nadu and the subsequent challenge to his authority from party rebels in key states such as Bihar, Madhya Pradesh, Gujarat and Rajasthan.

The overall message is that Mr Gandhi intends to fight the election from a populist, left-oriented platform, while making maximum use of the Congress Party advantage in funds and patronage to rally friends and divide the opposition.

The main move to emerge at the weekend was the resignation of Mr Bhagwat Jha Azad, Chief Minister of Bihar, whose dismissal had been demanded by a powerful body of Congress deputies in the state assembly.

Mr Azad had been appointed by the prime minister to curb the influence of the Bihar "mafia" which controls much the state's economy, institutions and political life.

However, Mr Gandhi appears to have covered his retreat on this by striking a deal with the local politicians that will ensure their support through the election. As part of this, seven ministers from Bihar holding portfolios in the central government also resigned over the weekend, paving the way for an expected cabinet reshuffle.

Mr Gandhi's decision to be more attentive to the pressures from within his party was also apparent in the populist budget, announced on Tuesday.

This increased welfare expenditures through new taxes on the middle class and the rich – in sharp contrast to the economic liberalism of Mr Gandhi's first budget, in 1984, which had been designed to woo the middle class.

A further key element in Mr Gandhi's pre-electoral strategy has been the return of Mr R.K. Dhawan to an important post in the Prime Minister's Office. He ran Mrs Indira Gandhi's private office while she was prime minister, and has a reputation for greasing the political wheels and managing relations between the party and the government.

The final evidence of Mr Gandhi's new-found expediency was the decision, announced on Friday, to release most of the Sikhs still in detention after the army stormed the Golden Temple at Amritsar in 1984 during operation Blue Star.

The move is intended to help bring reconciliation to the Punjab, and was welcomed as such by Sikh leaders.

Vietnam refugee policy move

By John Elliott in Hanoi

VIETNAM is understood to be considering an agreement, for the first time, that boat people who have illegally fled the country can be forcibly repatriated.

Up to now it has said that only volunteers can return, and has rejected international pressure to accept forced repatriation. The first 75 volunteers flew from Hong Kong to Hanoi on Thursday and were reunited with their families at the weekend.

The possible big change of policy may begin to emerge at an international conference, to open today in the Malaysian capital Kuala Lumpur, which will try to supersede a 1979 international agreement that all boat people be considered refugees and given first asylum in neighbouring countries, and then resettlement elsewhere.

A top government official in Hanoi indicated the Vietnamese policy change at the weekend. Mr Nguyen Can, the senior Interior Ministry official, said it was incumbent on each recipient country to decide how to treat the boat people, according to its own legal system. They could be allowed to stay or sent back to Vietnam.

"If a country does send them back and sponsors them, I think we will accept them, because we are all living in the shadow of the flag of humanity," he said.

Mr Can believes the only way to stop the floods of boat people still leaving is to introduce forced repatriation as a deterrent. He stressed that his remarks to visiting foreign journalists were his own personal views. "I have not discussed this with my leaders."

However, Mr Vu Khoan, a Deputy Foreign Minister representing Vietnam in Kuala Lumpur, said last week: "It is difficult for us to accept forced repatriation – it is not in the policy of humanitarianism."

The official line was also repeated yesterday by Mr Hoang Quy Chuong, who is in charge of organising the returning volunteers. "If they are not volunteers they will complain and they will think of escaping again," he said.

There is intense pressure on Vietnam to change its stance. Foreign diplomats believe Mr Can's remarks indicate the beginning of a shift, which will emerge either in Kuala Lumpur or at a UN conference in Geneva in June.

There are 55,000 to 60,000 boat people in Hong Kong, and indetention centres and refugee camps elsewhere in south-east Asia. There is growing international support for the argument that it is no longer practical to recognise all boat people as refugees.

Officials dealing with them estimate that half of them do not qualify as refugees for resettlement and should go home. Vietnam does not want them back, for economic and social reasons, but knows it cannot build the close relations it needs with neighbouring Asian countries till the boat people exodus has been stopped and it has agreed to extensive repatriation.

A British-Vietnamese agreement on voluntary repatriation from Hong Kong includes a phrase about "comprehensive arrangements", which British diplomats believe Vietnam knows to mean eventual forced repatriation. A draft memorandum for Kuala Lumpur includes a similar phrase.

CONTRACTS & TENDERS

OVERSEAS NEWS

Trusting your neighbour as yourself

William Dawkins on the controversial plans to simplify EC border controls

SIR GEOFFREY HOWE, the British Foreign Secretary, was heard to declare in Brussels recently: "The age of absolutism is over."

He was talking about unfreezing the old deadlock between the UK and the European Commission about how to resolve the conflict over frontier barriers. Brussels wants to scrap all frontier barriers between the 12 EC member states by 1992, but this cuts across Britain's concern about the fight against terrorism and international crime.

Member states have just agreed to forget for e while their theological debate on the future of frontiers and revive long-stalled practical efforts to make it easier and safer for EC citizens to travel across the Community. The outcome will matter to the many ordinary people who feel ignored by the creation of a single European market in 1992, or who are just fed up with having to sit in traffic jams outside customs sheds at Dover and at other frontier crossings.

No-one in Brussels believes for a moment that this means Britain has swallowed its unwillingness to fall in line with the Commission's plans for abolition of internal border controls – nor is London the only sceptic for scrapping offrontiers also pose grave problems, for different reasons, to Denmark, Greece and Ireland, among others.

Yet the latest effort to break barriers, being organised by a new task force of senior national officials and pushed hard by the Commission, has a better chance of producing results than previous attempts. Its aims are both technically modest and politically sensitive – the secret of success behind many other internal market measures.

All this stems from the realisation by EC government leaders et their summit last December that, half-way to 1992, their internal market campaign had done far less to improve the freedom of movement of their citizens – and voters – than to facilitate the free circulation of trade. The main progress for the average European traveller so far is the 1985 Schengen accord to phase out routine checks on travellers between the three Benelux countries, West Germany and France – that had nothing to do with the EC as such.

Now Mr Martin Bangemann, the new internal market Commissioner, has pounced hard on the theme. He is piling pressure on the co-ordinating group of national officials chosen by EC leaders to come up with ideas at the next summit, in June in Madrid. Raw persuasion is his only weapon, because the Commission has no legal influence on member states' security arrangements.

At the same time, he said Brussels could accept spot checks on travellers at frontiers, so long as controls were sharply reduced, a concession which has been welcomed in London. However, Mr Bangemann warns that the Commission still holds to its long-term policy of scrapping all barriers as agreed, but differently interpreted, by EC Governments.

Mr Bangemann hopes for "an early harvest" in June, the fruits of which would be: common procedures for deciding asylum applications, a common list of countries whose

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nationals must have visas to enter the EC, and co-ordinated extradition rules. The Commission picked these as the most tractable of the host of contentious subjects touching border controls, such as drugs and terrorism, tax, animal health and food safety. The idea is that a focus now on areas where agreement is near might make it easier to resolve toogher issues later.

Asylum should be a simple question of accepting that all applications be processed by the member state which admits an asylum seeker, though some governments have problems with West Germany's self-imposed constitutional duty to accept all East Germans as its own – and, by extension, EC – citizens. On extradition, the aim is to clarify and co-ordinate national rules so as to avoid unnecessary rows like the one created last year by Belgium's refusal to extradite Mr Patrick Ryan, suspected by Britain of connections with the IRA, to the UK.

Potential conflicts should be much eased by the UK's decision to sign the European Council convention on terrorism later this year. EC partners agree on e group of more than 50 countries to whose nationals visas shall apply, but are stuck over e handful about which opinions differ: the Maghreb states of North Africa, Yugoslavia and Turkey.

Pessimists warn that agreement on these will not diminish the wish of several governments to be left to operate whatever frontier controls they feel appropriate to their circumstances – anathema to the Commission. Britain argues that an island's ports and airports form "choke points" where crime controls are more effective and less dispensable than those in a country, such as Belgium, where travellers enter by hundreds of points. It is no accident, the British say, that UK customs and excise make 80 per cent of their drug seizures at borders, or that their animal health is better than that in continental Europe.

By all means shift tax controls away from borders to the destination of the goods concerned, but some security checks are essential, goes the UK argument.

Its critics point to the lack of border controls between Northern Ireland and the Irish Republic, and to the successes of Spanish and French police co-operating to catch Eta terrorists well away from the joint frontier.

Denmark shares some of Britain's reservetions. As a member of the Nordic passport union, it needs controls on its West German border to differentiate between EC and Scandinavian travellers. High-tax Denmark also relies on fiscal border controls to restrain cross-border shopping in lower-tax West Germany, a policy with which few of Copenhagen's partners have much sympathy.

Then there are the Greeks, who share Britain's wish to allow tougher controls on sea frontiers than on land borders, and do not like the Schengen accord because it implies free EC movement for Turks settled in West Germany.

Also, Greece's partners have an unspoken fear that it could be the weak link in EC security. Its many islands constitute a porous border with the Middle East. Certain member states could be unwilling to admit travellers from Greece unchecked.

The Greek problem illustrates the basic difficulty beneath the whole frontier-scrapping campaign. Whatever the legal and political arguments, member states will only drop internal EC barriers if they trust one another. The next few months could clarify – perhaps uncomfortably – just who trusts whom.

Toshiba plans European factory

By Hugo Dixon

TOSHIBA, the big Japanese electronics company, is looking for a site in Europe to make its successful laptop or portable computers. The favoured locations for the factory are West Germany, the UK and France – the markets where Toshiba's computers are best established.

Toshiba's would be the first Japanese computer factory in Europe, according to the Electronics Industry Association of Japan, based at Düsseldorf. Although there has been a rush by Japanese companies to establish facilities for making consumer electronics products and computer peripherals, such as photocopiers and printers, they had not seen the need to build computer factories.

Now, Toshiba's move could encourage other Japanese computer makers, such as Epson and Sharp, to set up plants in the region. The experience in other electronics markets has often been that, one Japanese company having taken a lead, others soon follow.

Mr Shunki Yatsunami, chairman of Toshiba's UK computer marketing subsidiary, said last week he expected a location for the plant to be chosen shortly, although he stressed that no final decision had been taken to go ahead with the project.

Mr Yatsunami said the need to establish a computer plant in Europe was related to the European Commission's anti-dumping investigations in a wide range of electronics goods. The Commission has not yet focused on computers, but Mr Yatsunami said it was best to play safe.

Toshiba is defending a dominant position in the rapidly-growing European laptop market. According to Intelligent Electronics, the Paris-based market researcher, Toshiba sold almost 100,000 laptops last year, giving it 38 per cent of the total market in terms of units.

Its share in terms of value was even higher, because the company's range of laptops is more expensive than that of most of the competition.

WORLD ECONOMIC INDICATORS

TRADE STATISTICS

		Jan '89	Dec '88	Nov '88	Jan '88
UK (£bn)	exports	7.373	6.802	6.702	6.373
	imports	9.471	8.565	8.588	7.821
	balance	−2.098	−1.763	−1.886	−1.448
France (FFrbn)	exports	94.300	86.700	87.700	79.511
	imports	97.100	91.500	91.300	80.115
	balance	−2.800	−4.800	−3.600	−0.604
Japan (US$bn)	exports	23.722	22.206	22.770	21.771
	imports	14.548	13.749	14.608	12.688
	balance	9.174	8.459	8.162	9.083
		Dec '88	Nov '88	Oct '88	Dec '87
US ($bn)	exports	29.322	27.855	28.625	24.313
	imports	40.357	39.902	40.286	37.333
	balance	−11.036	−12.047	−11.661	−13.020
W Germany (DMbn)	exports	51.060	48.710	51.730	44.986
	imports	40.140	37.620	42.210	34.212
	balance	10.820	12.090	9.520	10.774

Ariane launch set for tonight

THE 29th launch of a European Ariane space rocket, postponed because of two faulty valves, has been rescheduled for tonight, the head of the Arianespace consortium, Mr Frederic d'Allest, said yesterday, Reuter reports from Paris.

He said the valves became disconnected hours before scheduled take-off on Saturday from the European Space Agency's launch site at Kourou, French Guiana.

The rocket will carry a western European weather satellite and Japan's first commercial telecommunications satellite.

SHIPPING REPORT

Far East activity up

By Rachel Johnson

BROKERS reported a spate of activity in the Far East last week, despite fears that the large number of ships ballasting in the region would cause the market to collapse.

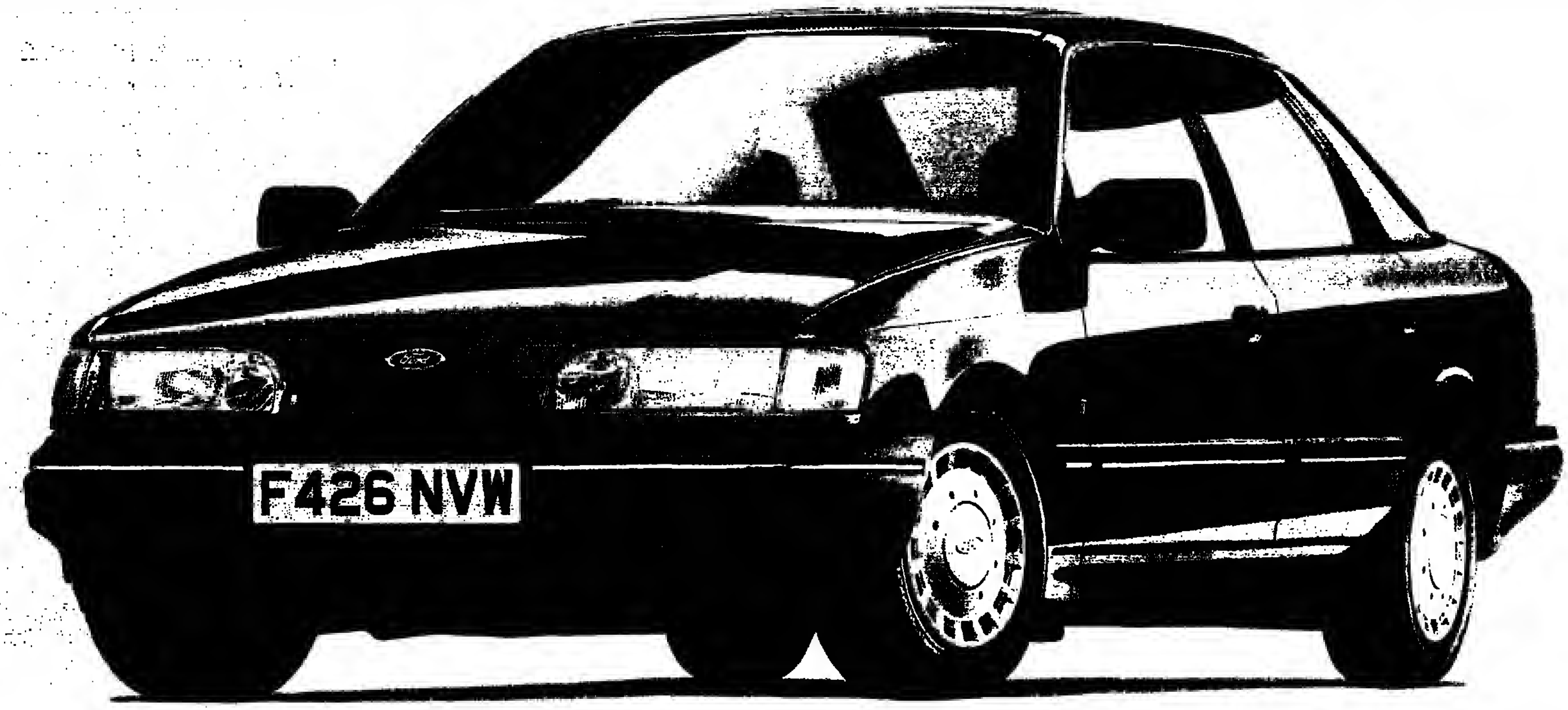
There was a slight increase in tanker market activity last week, except for the ultra-large crude carrier (ULCC) section, which has weakened further in the face of low rates paid by charterers. Very large crude carrier (VLCC) owners also accepted charterers' rates without resistance.

The fixture list from shipbroker Galbraith's showed that the clean market had been very busy. The Arabian Gulf and the Mediterranean sections have been showing a promising amount of business.

● The Lloyd's Register quarterly analysis of merchant shipbuilding returns reported Japan had overtaken Korea to win first place in the world order-book table.

The combined total order book of the EC states grew again, to represent 17.8 per cent of world orders, the highest for some years.

COMPANY NOTICES



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We're sure he'd be delighted.

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The manual is naturally a shade quicker, the automatic a trifle more relaxing. Neither will cost you any extra.

Nor, of course, will the anti-lock brakes. The Granada is still the only car in its class with ABS as standard on every model in the range. You are, after all, a valuable member of the firm, not to mention the family.

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It's a long list. Power steering, electric front windows, tilt or slide sunroof, tinted glass, height adjustable driver's seat, a superb sound system with self seek radio and six speakers and, just as well with so much to protect, Ford's high security locks with motorized central locking. (They are another of the features that Ford were one of the first to introduce.)

In fact the LS is so well equipped you might think you were riding in a GL.

If you'd like more details of this, or any other Granada, why not call the Ford Information Service free on 0800 01 01 12. Or, better still, call in and see your nearest Ford dealer soon.

He'll show you how you could enjoy your travel more without bumping up your expenses. And what accountant could possibly object to that?

Drive on the bright side.

Ford

Opposition links Purley tragedy to Thatcher stance on rail spending

By Hazel Duffy

THE Purley rail crash at lunchtime on Saturday put British Rail once more uncomfortably in the public spotlight. Less than two weeks after the public inquiry opened into the Clapham Junction crash, BR found itself again taking responsibility for deaths and injuries.

Opposition politicians immediately shifted some of the blame on to the Government. Mr Paddy Ashdown, Democrats' leader, accused Mrs Margaret Thatcher, the Prime Minister, of running down transport systems to "breaking point." Mr John Prescott, Labour transport spokesman, said safety was being given a low priority. The inference was that BR's investment has been cut in the interests of efficiency gains being set as the primary goal.

In fact, rail investment of £4.2bn over the next five years has been approved by the Government. This is double the rate of the early 1980s. However, there is a considerable investment lag because spending had been held up by ministers, when relations between the Department of Transport and the British Railways Board were at a low ebb.

This latest tragedy happened when BR is confronted with other issues which will have a critical bearing on the future of the rail business.

A crane clears the track of derailed coaches yesterday

This week, BR will announce its choice of one of three options for a high-speed rail link to the Channel Tunnel. Whichever route it chooses, the outcry will be loud and clear from those affected. Huge public demonstrations by residents in south-east London and Kent against the options published last autumn have clogged the streets around Westminster.

Some hope to make the Government concede that public money will be needed to make the final route even remotely acceptable from the environment viewpoint, even though this is not permissible within the legislation which governs the Channel tunnel.

BR says it will address all representations made by Kent county council in press advertisements. But it is clear that it feels it has been pushed into acting faster on the rail link question than it would have liked, and there is more than a suggestion that this is because the Government wants to see the controversial private bill introduced in November this year, so as to get it well clear before the next election.

What is not at issue is that BR has hardly given the impression that it was on top of the matter in the past few months.

Similarly, with privatisation of the rail system, which Mr Paul Channon, Transport Secretary, heralded to the huge approval of the last Tory Party conference. His preferred means is believed to be that BR should be broken up on a regional basis, in part a return to the pre-nationalisation days, on which he is expected to elaborate to time for this year's conference.

Sir Robert Reid, BR chairman, decided not to fight privatisation, but he made it clear last year that to break up the network would reverse the results from better management that have been achieved in the past few years. Most of the public, however, remained unaware of the arguments for and against.

Sir Robert, an engineer by training who has spent all his working life with BR, does not want confrontation with the Government in his last year as chairman.

But the growing number of passengers would like more insight into the questions raised by the Government's desire for private financing – expected to be tested on the planned Paddington to Heathrow rail link - and private operation of the railways. Above all, they want assurances on the safety of the network now and in the future.

Consumer group book attacks legal system

By David Churchill

MANY consumers are getting a raw deal from a legal system which "fails to provide justice for all," the National Consumer Council suggests in a book published today.

The book, called Ordinary Justice, is a review of the system of civil justice in England and Wales.

Its publication comes as the legal profession is facing its biggest upheaval following the release in January of three green papers on reform of the way the law is operated.

Although the book was written before the papers were published, the council says it very much welcomes the papers and fully endorses the Government's aim that consumers should be given the widest possible choice of cost-effective legal services.

Dame Sally Oppenheim-Barnes, council chairman, says most people do not see the courts as places to take their problems. "They are intimidated by the ritual, the jargon, the time that it takes for cases to be heard and, above all, by fears about what it might cost them."

She said that while welcoming the green paper proposals, "our only criticism is that we would like to see the Government go even further with some of its reforms."

The council would like to see removal of the immunity of barristers and solicitor-advocates against claims of negligence when representing people in court. Dame Sally said: "People's knowledge of and confidence in the civil justice system is very low."

The book shows, for example, that almost three quarters of accident victims do not even think of making a claim.

The Bar Council said the consumer council had not *recognised* that consumers would bear the brunt of the green papers' proposals. The Bar Council said the consumer council shared many of its own concerns about the green papers and that it had carried *out many of the improvements* demanded.

Ordinary Justice, National Consumer Council, HMSO, £11.95

Water leaders agree that ministers failed to 'sell' privatisation

By Richard Evans

THE PRIME MINISTER's tacit *admission* that the Government has failed to "sell" its water privatisation policy effectively is echoed within the industry.

Water industry leaders have complained for months that ministers have not rebutted false claims against privatisation and were failing to take sufficient account of the difficulties that lay in the path of a successful flotation of the 10 water authorities in November.

Ironically, there has been a change of climate in the last week or two among water authority chairmen, who now believe that Mr Nicholas Ridley, the Environment Secretary, and Mr Michael Howard, the water minister, are finally beginning to understand the scale of the problems and are acting more realistically in the complex negotiations prior to flotation.

But difficulty remains over presentation and in the stubbornly high level of opposition to water privatisation shown in opinion polls.

That was summed up yesterday by Mr Roy Watts, chairman of Thames Water, the largest of the 10, who said on BBC Radio that the Government was partly to blame for the lack of popularity for privatisation.

A lot of statements by the Opposition and in the media had gone unchallenged, and the fundamental arguments in favour of privatisation had to be restated time and time again, Mr Watts argued.

Other leaders, including Mr Gordon Jones, chairman of the Water Authorities Association and of Yorkshire Water, and Mr John Bellak, chairman of Severn Trent, agree that substantial progress is being made in the difficult flotation negotiations, but that it is up to ministers to sell the policy more effectively.

The difficulty for the government has come not so much in the Commons committee stage debates on the Water Bill, where Mr Howard is well in control and the Government has given away very little, but in adverse publicity created by higher charges and by various aspects of pollution.

Opposition leaders have used forecast price rises and examples of water authority pollution very skilfully to suggest that these are caused by the privatisation strategy. Ministers have largely failed to counter this impression.

Many difficulties remain before flotation: the current negotiations over future charges are certain to result in further worrying claims on the cost of improving water quality; the restructuring of the industry's balance-sheets will lead to claims that the authorities are being sold off too cheaply; and the arguments with the European Commission over the timing of water quality improvements is far from over.

The principles under which future charges will be fixed will be published today. This is about five weeks after planned publication but ministers remain confident that the privatisation timetable can be met.

Support for Scottish nationalists 'in decline'

By James Buxton, Scottish Correspondent

THE SURGE in support for the Scottish National Party which followed its victory over Labour at the Govan by-election last November appears largely to have evaporated, according to an opinion poll by MORI last week.

The opinion poll, published by the paper Scotland on Sunday, shows 20 per cent of those polled backing the SNP, compared with 32 per cent support at the end of last year.

The SNP national council heavily endorsed a decision by the party at the weekend not to take part in the constitutional convention – a body intended to draft a Scottish parliamentary constitution.

The SNP's abrupt decision to pull out of the convention only 48 hours after its first preliminary meeting is widely thought to be behind the sudden drop in its popular support, although the party had expected some of the post-Govan euphoria to subside. Party support stands at about the same level as in spring 1988.

The SNP decided to pull out because it considered it a Labour-dominated body aimed at devolution, rather than independence.

The opinion poll puts support for Labour at 46 per cent, the Conservatives at 23 per cent and the two former Alliance parties each at 5 per cent.

But the SNP can draw considerable comfort from a finding by MORI that 35 per cent believe it is in Scotland's interests to leave the UK and become an independent state.

'Good response' to Welsh paper

By Anthony Moreton, Welsh Correspondent

INITIAL reactions to Wales on Sunday, the newspaper launched yesterday were "very encouraging," Mr John Humphries, the editor in chief, said.

Sales will not be known before Tuesday, when circulation representatives will have talked to wholesalers and newsagents. But Mr Humphries said the planned 200,000 print-run had been achieved satisfactorily.

Wales on Sunday is published by Thomson Regional Newspaper's Western Mail and Echo subsidiary in Cardiff. It is the third Sunday paper to be launched by the group since last August.

IMRO warns over rule changes

By David Barchard

IMRO, the self-regulatory organisation for investment management firms, warned its members at the weekend that changes to the Financial Services Act being considered by the Government may not be practicable or fair.

IMRO is particularly concerned about proposals that the Conduct of Business Rules, published by the Securities and Investment Board (SIB) last November, will be enforced as rules rather than as principles for business standards.

The organisation is urging its members to make their views known to the Government well before the deadline on submissions on March 31.

Mr John Morgan, IMRO chief executive, described the SIB's proposals as "of great potential value" for showing how investment firms should conduct themselves.

However, IMRO believes that the number of rules should be strictly limited and that they should lay down general principles of conduct with precisely defined meanings, rather than be tightly linked to particular occasions.

"All those affected, investment firms, SROs and investors must know where they stand, otherwise there is a clear risk of frequent recourse to law," IMRO warns.

The organisation would like to extract "core principles" from the SIB's draft code as a set of standards for its members to conform to. Any member failing to conform with the standards could face expulsion.

The SIB has already indicated that it does not favour this approach.

However, IMRO warns its members that the alternative is "a multitude of general principles as well as specific rules, all equally enforceable and available . . . for civil litigation."

It concludes that "this is not a practical basis for fair and effective regulation, and risks loss of the aims which HMG have in mind."

Company will promote East Anglia

By Richard Donkin

BUSINESSES worried about the lack of inward investment and infrastructure projects in East Anglia are forming a company to promote the region in the UK and abroad.

Initially 14 companies have each invested £1,000 to establish Anglia 2,000, a company limited by guarantee, which is to be inaugurated at a meeting in Newmarket on March 15 under the chairmanship of Mr Michael Falcon, the chairman of Norwich Union.

The company will be part pressure group, part promotional company to represent a variety of interests in the four East Anglian counties – Suffolk, Norfolk, Cambridgeshire and Essex. Miss Valerie Holt, acting secretary, said the company was being formed to attract government and business interest in the area.

She said the regional economy needed new investment. The road system, in particular, needed improving to end the region's isolation.

With the exception of boom areas such as Cambridge, Peterborough and Norwich, the region's economic wellbeing was patchy, she said.

UK NEWS

Gold Fields report to be released

By Ray Bashford

LORD YOUNG, Trade and Industry Secretary, is to release findings of an inquiry into allegations of a concert party raid on the shares of Consolidated Gold Fields in 1986.

Directors of Gold Fields were given copies of the report last Thursday on a confidential basis and will press Lord Young to release it immediately. But the DTI said yesterday that although the report would be published, it could not say when.

The inquiry by DTI inspectors started in December 1986 after Mr Rudolph Agnew, the chairman of Gold Fields, alleged that there was a concert party acting while American Barrick Resources, a Toronto-based company, was buying a 4.9 per cent stake in Gold Fields.

James Capel, the London stockbroker which is acting for Minorco, the South African controlled investment company, in its £3.2bn revised bid for Gold Fields, was also advising American Barrick during the time of the build up.

Mr Peter Quinnen, James Capel's chief executive was reported over the weekend to have confirmed the purchase of about 500,000 Gold Fields shares while advising American Barrick.

He said the purchases were part of normal business and that a Chinese wall existed between the mining department and the corporate finance team working with American Barrick. James Capel was unavailable for comment.

The Toronto company has reportedly said it was unaware that James Capel held shares while the 4.9 per cent stake was being acquired.

It is believed that DTI inspectors began investigations in 1987 into alleged insider trading, under Section 177 of the Financial Services Act, while proceeding with the probe into the allegations of the concert party under Section 442 of the Companies Act.

It is understood that Gold Fields was formally informed that the investigation under Section 177 was underway shortly after it commenced.

At least two directors of Gold Fields and a member of the financial advisory team were shown last week the report into the allegations of a concert party but the company said that the assurances of confidentiality given to the DTI prohibited comment.

Both reports are believed to have been completed last September. It is not known whether the Trade and Industry Secretary will take any action. He is under no legal obligation to make public the findings of the investigation into possible insider trading.

Last October, Lord Young appointed inspectors to investigate separate allegations of insider trading in the run up to Minorco's original £2.9bn bid for Gold Fields.

Ashdown renews call for pacts with SDP

By Michael Cassell

MR PADDY Ashdown, leader of the Social and Liberal Democrats, yesterday renewed his call to the Social Democratic Party (SDP) to enter by-election pacts, indicating that he expected Dr David Owen, SDP leader, to take responsibility if the plan collapsed.

Mr Ashdown was speaking at the end of the Democrats' spring conference in the south coast resort of Bournemouth, which voted by more than three-to-one to support his proposal for the joint selection by local ballot of by-election candidates.

He repeated his preference for a full merger of the two parties, but said the pact plan could provide the first step towards unity. He hoped his party's relationship with the SDP could soon be resolved.

Mr Ashdown also stressed, however, the size of the Democrats in relation to the much smaller SDP and implied that failure to reach an understanding would lead to a renewed national electoral battle.

Mr Ashdown referred to recent remarks made by Mr John Cartwright, SDP president, which supported a one-member-one-vote selection process as the only workable means of candidate selection.

The Democrat leader said the remarks gave grounds for hoping the SDP would make a positive response to his suggestion and claimed his party would "rejoice" if a deal were agreed.

The Democrat leader also cited an opinion poll last week which showed a clear two-to-one majority among SDP members in favour of a merger with the Democrats.

A poll in yesterday's Sunday Times newspaper, carried out by the MORI market research group, put the Democrats at 9 per cent, 2 percentage points ahead of the SDP.

Despite Mr Ashdown's expressed hopes for some form of agreement between the two parties, the possibility still looks slim, with Dr Owen's smaller party standing to do badly out of the candidate selection formula suggested by the Democrats.

A deal at the forthcoming Vale of Glamorgan by-election in Wales looks increasingly unlikely.

In his closing speech, Mr Ashdown ignored the controversy over pacts and called for a wider coalition of progressive ideas which would embrace people from other parties.

Mr Ashdown claimed that Thatcherism had "run out of steam" and that only the Democrats offered a realistic, alternative agenda to "Tory meanness and Labour waste."

BR investigates error as cause of rail crash

By Hazel Duffy and Rachel Johnson

BRITISH RAIL said last night that it is investigating possible driver error as the cause of the train crash near Purley, in south London, on Saturday in which five people were killed and 94 injured. BR accepted responsibility for the disaster.

Mr Gordon Pettitt, BR's Southern Region general manager, said that Mr David Morgan, who was at the controls of the Littlehampton to Victoria locomotive when it struck a Victoria-bound train from Horsham, had gone through a red signal.

Mr Morgan is detained in *hospital with serious injuries*. Mr Pettitt said: "The driver has told us that the signal at the end of the platform at Purley Station was red, yet he went through it. He has not been able to offer any explanation for that.

"The safety of our signalling system does obviously depend on drivers stopping at red lights. It did not stop."

A red aspect signal would normally have been apparent to the driver two sections of tracks previously. "We have a system of multiple signalling where a driver gets an indication of a red light three sections back," said Mr Pettitt.

He said investigators had already discovered evidence that the driver applied the brakes severely and had been unable to stop in time.

His train might even have been in the process of being derailed when it "side-whacked" the train in front a glancing blow, sending carriages plunging down a 60ft embankment.

No mechanical faults had yet been detected in signals or train brakes failure. There had been some signalling work and track maintenance in the area, but there was no evidence yet that either was thought to be a cause of the accident.

Mr Paul Channon, Transport Secretary, is expected to announce today that he will be setting up a public inquiry into the disaster. Two weeks ago, a judicial inquiry – a relatively rare procedure – opened into the disaster last December at Clapham, also on British Rail's Southern Region, when 35 people died.

Mrs Margaret Thatcher who visited victims of the Purley crash in hospital yesterday, 10 of whom are seriously injured. She said that there would be "every kind of inquiry" into the crash.

BR's own full internal inquiry into the crash will start today under the chairmanship of Mr David Burton, deputy general manager. It is expected to last three or four days.

Shortage of skills in US and UK 'to worsen'

By John Gapper in London

SHORTAGES of skilled workers are likely to increase in both the US and Britain as manufacturing companies continue to search for more employees, according to surveys by Manpower, the employment agency.

The surveys of 14,000 companies in the US and 1,600 in the UK found that 30 per cent in the former and 31 per cent in the latter intended hiring more staff: 6 per cent in both countries planned staff cuts.

The US survey found that many companies were having difficulties in recruiting the workers they need. Seasonal hiring patterns were pronounced, with construction and private service companies forecasting strong rises.

In Britain, manufacturing companies were taking over from services in leading employment growth, with confidence returning in manufacturing areas such as South Wales, East Anglia and the West Midlands.

Mr Mitchell Fromstein, chief executive of Blue Arrow, Manpower's parent company, said he was surprised by the similarity of the two surveys which showed that growth in demand for workers continued.

Both surveys showed that shortages of particular skills in some regions were growing. This indicated that general wage inflation was less likely than the bidding up of rates for skills in demand.

In the US, the Midwest was the leading region for employment growth. Hiring activity in construction – in which 37 of employers planned to add workers – was strongest in the Midwest and north east.

In Britain, 34 per cent of manufacturing companies expected to increase staff – up 3 per cent on the last quarter. The survey found optimism highest in electronics, heavy and electrical engineering, textiles and food and drink.

In services, where employment prospects usually rise in this quarter, 26 per cent of employers – 5 per cent fewer than the same period last year – planned to take on staff. This reflected the squeeze on credit, the survey said.

UK NEWS

Cable plans will hit investment, ministers are told

By Hugo Dixon and Raymond Snoddy

THE GOVERNMENT has been warned by the Office of Telecommunications and by PacTel, the US telephone company, that its plans for cable would be disastrous for investment in the industry.

Oftel, the telecommunications watchdog, has told the Government its plans for cable, in particular a proposal that cable television network owners cannot sell their programme services direct to the consumer, could harm the cause of competition.

PacTel, an investor in East London Telecommunications, the cable company, has extensive plans for expansion and says that under the proposed regime "few investors would wish to pursue cable opportunities in the UK."

Oftel argued, in a submission to the Home Office, that the proposed restrictions could make it uneconomical for companies to invest the tens of millions of pounds needed to build cable networks.

The return on such investments took such a long time to come through that companies might not be willing to take the risk if they could not control the retailing of their services, Oftel said.

Companies would therefore either stop investing in local distribution networks or would choose the much cheaper option of relying on microwave radio to distribute television programmes, Oftel believes.

That could severely damage Oftel's policy of encouraging competition to British Telecom on a local level, as microwave technology is incapable of carrying telecommunications traffic.

Booz Allen & Hamilton, in a report for PacTel, warns that apart from vertical separation the US company is concerned about plans to impose a levy when there is no competition in a franchise area and award local franchises to the highest bidder.

"Any of these proposals individually, and particularly when taken together, will lead to a climate in which the benefits of increased choice provided by cable will not reach British consumers," argues the report prepared by a team headed by Mr Charles Jonscher.

The typical break-even point for a cable franchise is seven to eight years. The Booz Allen report argues that Government proposals would delay that break-even point by a further six years pushing it to the end of the franchise period.

"The combined effects of increased cost of debt and decreased revenue have a devastating effect on the rate of return for a local area franchise using cable as its primary means of delivery.

The Booz Allen study argues that the proposed Government regime is one that is appropriate for a mature industry not one with economic prospects that are far from secure.

Burton in middle-aged spread of men's shops

By Christopher Parkes, Consumer Industries Editor

BURTON GROUP, the clothing and department store multiple, has resurrected a 56-year-old menswear company, Huttons, for its first assault on the clothing market for "older" men.

The first of seven pilot stores catering for men between 35 and 55 – in years, not waist measurement – opened in Bristol at the weekend.

The shop will sell mainly suits and casual wear, but jeans will not be stocked, the company said.

According to Mr Chris Tideman, chief executive of Burton Retail, the stores will be more spacious than usual – as will the trousers. The company's tailoring and styling policy will allow for the natural expansion of the male figure which tends to come with age.

The launch programme, which will include Huttons openings in Stockton-on-Tees, Southend, Birmingham, Manchester and Glasgow, will end with a new store in London planned for mid-April.

Performance and prospects will then be assessed, and further openings may follow.

The British population is suffering from a form of middle-aged spread, which, demographers say, will result in a rapid decline in the number of 15-to-24-year-olds and a corresponding increase in older people.

The menswear market is currently worth about £1.8bn a year.

Burtons bought the Huttons name, first used in 1933, as part of the package of shops and brands in the John Collier chain, renowned in the 1950s and 1960s as "the window to watch."

The group claims to be the first to address seriously the clothing market for the older man with a specific type of outlet.

Recent targeted launches appear to be successful. Principles for Men, for example, started just over three years ago and now has more than 100 outlets. Radius, launched a year ago, has 50.

Golden era is withdrawn from the banks

David Lascelles looks at the growing competition which threatens British clearers

The banks' domestic assets are growing rapidly ...

Assets (£bn)	1987	1988
Barclays	41.3	53.4
Lloyds	23.0	28.2
Midland	21.0	25.6
NatWest	37.9	44.9

... but competition is squeezing their margins

Domestic lending margins (%)	1987	1988
Barclays	5.30	4.70
Lloyds	5.84	5.36
Midland	5.30	4.90
NatWest	5.60	5.50

LAST year could go down in UK banking history *as the* end of a golden era. The results from the Big Four clearing banks in the past fortnight all showed huge earnings from their domestic banking base up and down British high streets.

But by the end of the year, the effect of sharply higher interest rates was already beginning to make itself felt in lower loan demand and shrinking margins.

The banks' worry now is twofold. One worry is that the Government's tight monetary stance will give the UK economy a hard landing, in which case the billions of pounds worth of loans which they piled on last year could start going bad. The other is that if the worst is avoided, rapidly mounting competition in the banking market will make a return to earlier profit levels impossible.

Mr John Quinton, chairman of Barclays Bank, which was the most aggressive acquirer of UK assets last year, says he does "not totally disagree" with the proposition that UK banking profits may have passed their peak. "It will be more difficult to earn profits in the future," he said. But he argues that banks are already adapting by developing new sources of non-banking income.

The banks found their growth in several parts of the banking market last year. Among the strongest of them was business lending which held up right to the end of the year, despite rising interest rates.

This resulted to a large extent from the banks' new *interest in the medium and* small company market, and the special "business centres" which they have established to serve it.

Indeed, bankers seem to have surprised themselves with the amount of business they found in this market, an indication, perhaps, of the extent to which they had previously neglected it.

On the personal side, loan volumes held up until the second half of the year, but then levelled off. This included mortgage lending, which rose sharply in the first half of the year, only to be throttled by high rates later, particularly in the south. All the banks added strongly to their mortgage books; Barclays by 57 per cent, Midland by 25 per cent.

Insofar as the future is concerned, the more significant developments last year probably occurred in what the banks called "related services": non-banking financial services such as insurance broking, life assurance, unit trusts, pensions, and leasing.

A steady growth in diversification added to the banks' profits, and opened up new lines of business. Most striking was Lloyds Bank's semi-merger with Abbey Life, underlining the importance that banks now attach to life insurance, and related "big ticket" personal services like home loans and investment.

NatWest, which claims to be among the largest insurance brokers in the country, earned 40 per cent higher profits from this activity. Barclays financial services group, which supplies insurance and investment products, raised profits by 20 per cent.

Midland is also gearing up its non-banking financial services side, partly through a joint venture with General Accident.

"Simple products are hard to make money on, because everyone is offering them," Sir Kit McMahon, chairman of Midland Bank, says. But he sees "enormous opportunities" to make money from more specialised services in the savings and corporate markets.

Mr Quinton agrees. Only one in every 20 of Barclays banking customers buys one of the group's non-banking products. That means there's "enormous potential," he says.

But while the quest for new sources of income occupies one side of the banking industry, the other half is battling with what virtually all senior bankers say will be the key factor for success – costs.

The squeeze is coming from several directions. The need for heavy investment in technology is eating up literally billions of pounds. Barclays revealed that it spent £300m-£350m on technology last year, and will increase that figure by £100m this year.

Without that sort of investment every year, Mr Quinton says, Barclays had calculated it would have to employ 30,000 more people than now.

Another squeeze comes from funding costs. None of the banks managed to fund last year's sharp growth in lending without tapping the wholesale markets. As a result their funding mix deteriorated, with *cheap personal deposits giving* way to costlier bought money.

This situation could deteriorate further this year with the introduction of interest-paying current accounts which will cost the banks anything from £15m at Midland to £60m at Barclays. However, Mr Brian Pitman, chief executive of Lloyds, argues that insofar as the new accounts attract fresh personal deposits to replace bought money, they will actually reduce funding costs.

Mr Pitman says the fight to control costs is crucial because none of the clearers can differentiate itself enough to be able to charge higher prices than the others. So the prizes will go to the bank that can deliver the goods more cheaply.

Mr Pitman focuses closely on profitability, and aims to make his bank "the low-cost producer." But then so does Sir Kit McMahon at Midland who says: "The real fight will be on the cost base."

Mr Tom Frost, chief executive of NatWest, has introduced a new compensation scheme linked in part to managers' ability to contain costs. "We've really got to push this concept down the line," he says. At Barclays, they have launched a cost-cutting review.

Analysts believe that 1989 could at last see the great outbreak of competition in high street banking which bankers have long talked about but so far largely avoided.

Banks are expanding their services for businesses, extending their opening hours, producing more attractive types of accounts, and diversifying their interests. Although bank profits are notoriously hard to forecast, they say this adds up to much reduced earnings growth in 1989.

House prices 'up again'

By Hazel Duffy

HOUSE PRICES went up last month by 1.6 per cent following a fall of 0.8 per cent in January, according to the latest monthly survey published by Halifax Building Society.

However, higher mortgage rates are having an effect and prices are rising more slowly. The annual rate of price rises is put at 32 per cent, against February's 33.6 per cent.

Halifax said mortgage demand had shown some recovery in February, but had been well down on its level last year. Demand from first-time buyers fell by 44 per cent.

● The Royal Town Planning Institute has urged the Government to allow continuation of cheap housing deals between councils and developers.

In a letter to Lord Caithness, the Environment Minister, it said it feared such schemes could be outlawed by the Local Government and Housing Bill.

BT resumes chatlines after changing price structure

By Hugo Dixon

BRITISH Telecom has agreed to reinstate chatline services *which allow groups of people* to gossip over the telephone. The company cut off the chatlines last month after campaigns by MPs and the press.

However, BT sought to distance itself from further criticism by stressing that the chatlines' operators would have to use the ordinary public telephone *network rather than* BT's special "premium rate" network, which costs customers *25p or 38p* a *minute. The* chatline operators would have to reclaim the extra money from the customers directly.

The high cost of chatline services was one of the main reasons for the campaign against them. Instances were reported of parents faced with telephone bills of thousands of pounds, *run up by children.*

Several chatline operators tried unsuccessfully in the *High Court last* week *to force* BT to reinstate their original premium rate lines. However, the company told the court it would convert the premium rate lines to ordinary lines if the chatline operators wished.

BT said yesterday several chatline companies had taken up this offer, though it refused *to name them. "How could we* turn down a request by a company for 500 ordinary tele*phone lines?" it asked.*

Under the new system, BT will collect money from customers for the cost of using the lines. It will not pass on money to chatline operators.

Chatline companies will have to find alternative ways of collecting money from their customers. Two have been suggested: customers could pay for the calls by credit card, or could be charged a subscrip*tion fee.*

BT said it had not asked Oftel to approve its new system for charging. The telecommunications watchdog is due to make its own ruling on chatlines later this week, in response to a report by the Monopolies and Mergers Commission that the services should be allowed to continue.

UK NEWS

Hinari to start assembly of TV sets in Scotland

By James Buxton, Scottish Correspondent

HINARI, the Scottish consumer electronics company which has so far imported all its products from the Far East, is to start assembling 14-inch televisions at Cumbernauld, near Glasgow, from next month.

Components will initially be imported from the Far East, but the company hopes to be incorporating components manufactured in the EC within about a year.

Hinari offers a wide range of consumer electronics products, including video recorders, audio equipment and televisions, which it designs and has made in Japan, South Korea, Taiwan and Hong Kong. It was founded only in 1985, and last year its sales rose by 75 per cent to £70m. It uses a Japanese-sounding name to increase consumer acceptance.

Mr Brian Palmer, Hinari's chairman, managing director and principal shareholder, said yesterday that the main reason for starting assembly in Scotland was to increase security of supply.

He says the company, which claims to have 10 per cent of the UK market for 14-inch televisions, was in danger of becoming too dependent on its suppliers.

He said the EC Commission was investigating allegations of dumping by South Korea and China, but that even if no anti-dumping measures were enforced it would still be economic to manufacture in Scotland. "It wouldn't make us change our decision. The total cost price will be identical. There is no actual saving making it in Scotland."

The higher cost of assembly would be offset by reduced transport costs and lower rates of import duty.

Two production lines are to be set up at the company's plant in Cumbernauld with the first becoming operational in April and the second in June. Hinari will make its remote control 14-inch model, its version which includes teletext, and its Sunrise model, which incorporates a clock and switches itself on. Some 80 jobs will be created.

"The first thing is to start making the product and to get the quality right. Then we will look around and see what components we can buy locally," said Mr Palmer. One possibility for local sourcing would be plastic mouldings, and Hinari is talking to Philips about importing television tubes from its plant in Spain.

"We've got to seek companies out, but they've got to seek us out too. Within 12 months we hope to see a number of components of EC manufacture going into our products," he said.

Hinari originally intended to manufacture video recorders when it decided to set up its Cumbernauld plant. That plan was dropped when it emerged that they were not after all threatened by anti-dumping action.

Inflation and sterling worries 'limit tax cut scope in Budget'

By Michael Prowse

PRE-BUDGET submissions released this morning and over the weekend suggest that the Chancellor's scope for tax cuts on March 14 is narrowing.

Rising inflation and sterling's vulnerability have severely limited Budget options, says NatWest Capital Markets. The £3bn or so of cuts which seemed possible only recently now look far too risky.

But Mr Lawson is under pressure to sustain his supply-side credentials and so is likely to shave 1p off the basic rate of income tax. Some excise duties, such as for lead-free petrol, may also be under-indexed. But the cost of these modest measures would be offset by higher national insurance thresholds and a further squeeze on the company car perk.

Such a package would cost about £1.5bn, says the report, and allow the Chancellor to announce a prudent public sector debt repayment of £14.5bn for 1989-90.

CL-Alexanders Laing & Cruikshank is equally bearish. It says an exchange rate fall this year will be "irresistible" and says the Chancellor must therefore use fiscal policy to slow demand and bear down on inflation. It expects net tax cuts to be restricted to £1.5bn with the cost of a 1p cut in the basic rate and a 10 per cent rise in personal tax allowances being partially offset by a big increase in company car tax.

Lloyds Bank says the Budget has to be tough enough to impress financial markets yet must also contain sufficient tax concessions to show Mr Lawson is not being deflected from his medium-term aim of encouraging individual enterprise. Taxation, public expenditure and the public sector debt repayment are therefore likely to remain unchanged relative to gross domestic product.

To keep the tax burden unchanged at 38 per cent of gross domestic product, says Lloyds, the Chancellor needs to reduce taxes by £2bn. The target public sector debt repayment in 1989-90 is likely to be £13bn.

Professor Patrick Minford takes a different view in the March issue of Liverpool University's Quarterly Economic Bulletin. "With a likely surplus of no less than £20bn in 1989-90, Mr Lawson can afford to cut taxes by £10bn. His main priority should be to cut the standard rate, because this is the most effective way to improve incentives."

It says tax cuts, by boosting supply and lowering wage demands, would reduce inflationary pressures. The bulletin says the Government should seize the opportunity to proclaim its commitment to the "supply-side revolution in the British economy."

Rossminster affair ends with £5.75m settlement

By David Barchard

THE ROSSMINSTER affair, which led to the most severe crackdown by the Inland Revenue on a tax avoidance operation, has reached a conclusion involving a payment of £5.75m.

The group's two founders, Mr Roy Tucker and Mr Ronald Plummer, announced they had reached settlements with the Inland Revenue. The agreement, after a 10-year wrangle, appears to represent a compromise on both sides.

The Revenue had sought to recover more than £18.5m from Mr Tucker, while Rossminster sued the Revenue and the police in May 1985 for £7m damages for loss of business arising from dawn raids by police and Inland Revenue officers in July 1979 on Rossminster's offices and the homes of its directors and accountants.

Under the terms of the agreement, Mr Tucker will pay £5.75m to the Inland Revenue against all outstanding claims and disputes and has withdrawn his claims for damages against the Revenue.

Meanwhile, claims for the bankruptcy of Mr Tucker by the Revenue and Mr Colin Bird, a partner of Price Waterhouse who is trustee in bankruptcy of Roy Tucker, have also been withdrawn.

Mr Ronald Plummer, the other co-founder of Rossminster, put out a separate statement saying he had concluded a settlement with the Revenue and there were now no disputes between Mr Plummer, his family and the Revenue.

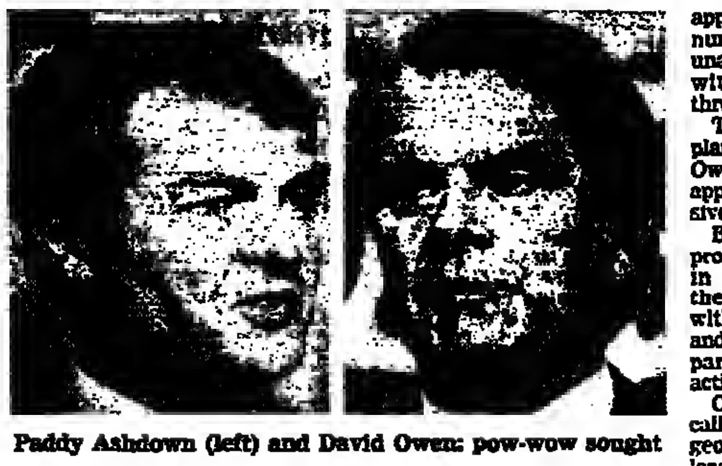
Mr Tucker is expected to be given an automatic discharge later in the year. This will not be opposed by Mr Bird and Mr Tucker intends eventually to apply for an annulment of his bankruptcy order.

However, before bankruptcy proceedings against Mr Tucker are lifted, one remaining claim against him will have to be resolved. That has been made by a participant in tax schemes in 1973/74 and 1974/75. The claim is strenuously denied by Mr Tucker.

The court has approved a letter to the claimant from Mr Bird, explaining the settlement and the arrangements guaranteeing claimants' positions.

Trying to avoid a 'wrong mistake'

Michael Cassell on the dilemma overshadowing the SLD conference



Paddy Ashdown (left) and David Owen: pow-wow sought

IN AN ironic aside made from the rostrum at the Social and Liberal Democrats conference this weekend, Mr Gwynoro Jones, the old Labour warhorse from Wales, said he was attending to ensure his new party did not make the wrong mistake.

His remark summed up the feelings of many of the representatives in Bournemouth, who left for home yesterday feeling that they had made the best of a bad job.

They had rallied behind Mr Paddy Ashdown, an inexperienced leader now under pressure, to support his call for local by-election agreements with the Social Democratic Party. Mr Ashdown had led from the front and they were prepared to follow.

It was not a decision born out of a conviction that the plan was a masterful one or out of any genuine desire to do business with Dr David Owen, the leader of the Social Democratic Party whose mesmeric power over his former allies bears little relation to the scale of his political clout.

The decision was, nevertheless, necessary to show that the Democrats were not the spoilers of the centre ground. It was also vital to prevent the party from plunging into an unthinkable leadership crisis.

For some, the depressing evidence suggested they had not come very far since the tribulations and traumas of the old Alliance split.

Once again, it seemed that an apparent orgy of introspection had managed to overwhelm a three-day agenda intended to concentrate on crystallising the party's electoral appeal.

While the platform doggedly steered the proceedings through integrated transport policy and water privatisation, the bars and restaurants were otherwise occupied.

Instead of policies and principles, the talk was of pacts and of panic and of Paddy, now apparently seeking to pow-wow with the Doctor.

Until the Richmond by-election the Democrats had been encouraged by their leader to regard the Owenites as an irrelevance. While the conference gathered, however, they were able to hear Mr Ashdown claim in a television interview that he would be happy to see Dr Owen lead a combined centre party if that was what members wanted.

The gesture may have been an empty one, given the inbuilt numerical advantage which the Democrats have over the SDP, but the remark added another strand to the web of contradictions and confusion hanging over the "muddled middle" of British politics.

In a classic piece of political schizophrenia which seemed to encapsulate the scale of the present mess, conference on Saturday was at one stage about to be asked to back a motion approving the Ashdown plan to co-operate with the SDP on by-election candidate selection but simultaneously deploring Dr Owen's grudging reaction to the proposal.

Common sense prevailed and the serpent was untwined from the olive branch.

Mr Ashdown's high risk strategy for handling the SDP began to emerge when it appeared Richmond was about to go horribly wrong and that Dr Owen might win. There was evidence that it was the Democrats who were being blamed for sustaining the centre split by rejecting all talk of pacts while Dr Owen espoused his plan to wide electoral agreements.

The by-election deal was intended as a message to the public that the Democrats were ready to respond to the wishes of millions of voters for the centre to get its act together.

The plan was to put Dr Owen on the spot; there were too many tunes still being played by a man who was left with only one string. The idea of one-member-one-vote selection at local level could not appeal to a party heavily outnumbered on the ground and unable to acknowledge the fact without blowing a hole through its political credibility.

The Democrats believe the plan has succeeded and that Dr Owen, with his latest "cool it" approach, is now on the defensive.

But while the tactics might provide an interesting exercise in political one-upmanship, there remain grave doubts within the ranks of Democrats and within the parliamentary party about Mr Ashdown's action.

Over the weekend, he was called naive, foolhardy, courageous and inspired, and at least one of his MPs publicly backed Mr Ashdown and a plan which he privately believed should never have been put forward.

Many Democrats still believe that if the Owenites are really so inconsequential, and if Richmond was a "one off," then the best reaction would have been no reaction at all.

Neither do they think the recent public manoeuvrings, intended as much to wrong-foot Dr Owen as to reach any accommodation with him, will do much to convince voters of the legitimacy of any such deals.

Nevertheless, the die is cast and there is no going back. The prospect of doing a deal, which could itself threaten more problems than victories, looks remote.

Mr Ashdown yesterday rounded off the conference by ignoring the controversy he helped provoke and by trying to get his party to look ahead to a greater vision. Bournemouth proved, however, that the new party's confidence is not yet so great that it can avoid snatching nervous glances behind it.

Mayhew asks court to dismiss Guinness case charges

By David Barchard

MR JUSTICE Henry is to hear an application today from Mr David Mayhew, senior partner in Cazenove, the City stockbroker, to have four criminal charges against him dismissed.

If Mr Mayhew's application is successful, other defendants in the Guinness case are likely to make applications for charges to be dismissed. These could include Mr Roger Seelig, formerly of Morgan Grenfell, and Lord Spens of Henry Ansbacher. The success of the application depends on Mr Mayhew's ability to establish that the charges against him contain no matters on which a jury need express an opinion.

Mr Mayhew is likely to argue that he was acting on what he believed to be legal instructions from his client, Pipetec, an offshoot of Bank Leu of Switzerland, in the purchase of 10.6m Distillers shares in April 1986, and that he was unaware of any link between Pipetec and Guinness.

He is also accused of helping arrange a £76m deposit with Cazenove by Guinness to pay for the purchase.

Mr Mayhew will probably contend that there is only circumstantial evidence suggesting he knew of the arrangement between Guinness and Pipetec.

Moi warns of grim future for Earth

By John Hunt, Environment Correspondent

'There can be no winners from the damage that man continues to inflict upon his own planet'

AN APPEAL for developing countries of the Third World to sign the *Montreal Protocol* – the international agreement for the protection of the ozone layer – was made by President Daniel arap Moi of Kenya when be opened the international conference on the ozone layer, attended by 124 countries to London yesterday.

He coupled this with a call for aid from industrialised countries snch as tha US, Japan, Britain and other western European nations, to give assistance to developing countries to help them phase out chlorofluorocarbons (CFCs).

Those are the chemicals, used in aerosols, refrigerators and the manufacture of plastic foam, which are the main agent in the thinning of the ozone layer. President Moi also urged the exchange of information and technology on this issue from tha industrialised countries to the Third World.

The President, whose country is host to the headquarters of the United Nations Environment Programme (UNEP), also *demanded* that western countries should stop dumping toxic waste in Africa and other Third World nations.

He warned of the danger the global ecosystem faced from the increase in ultra-violet radiation that would result from a thinning of the ozone layer and from the global warming (the "greenhouse effect") which could result from other forms of pollution.

"The message is clear," be said. "There can be no winners from the damage that man continues to inflict upon his own planet. We should all play our part in taking preventative action now. The evidence of impending disaster is already with us."

The President said that the gravity of the difficulty was underlined by the fact that so many nations had sent representatives to the conference – the first of its kind.

"It is not a matter for nicely-worded conventions and protocols," be declared. "It is not a matter of concern to only a few members of an exclusive club. All members of the international community have a duty to protect the ozone layer."

He urged countries that had not signed the Vienna Convention on the ozone layer, and the Montreal Protocol which emerged from it, to do so now and "join us in the endeavour to protect our planet."

So far, 46 countries have signed the Montreal Protocol, which *calls for* a reduction in CFCs by 50 per cent by the end of the century. There are 31 countries that have ratified it – 33 if the separate signings by Byelorussia and the Ukraine are included separately from the Soviet Union.

Howaver, President Moi emphasised that acceding to the convention and protocol was not sufficient. He said: "We must take determined and deliberate steps to achieve the objectives of these instruments. Let us all accept that the threat to the ozone layer is a global problem whose disastrous affects know no national boundaries.

"It calls for a mobilisation of political will, international co-operation and genuine and equitable sacrifice from all of us."

Calling for aid for developed countries, he said they would not find it easy to forgo the use of CFCs in their quest for industrialisation. Many Third World nations were now embarking on large-scala expansion in their refrigeration, air conditioning, plastics and *electronic industries*. Most of them depended on the use of chemicals such as CFCs.

"The world community – especially the industrialised nations – must help these nations make the right choice and order their priorities properly."

"The industrialised countries must be prepared to bear the burden of consarving the global ozone layer equitably with the less industrialised countries. Developed nations "must make sacrifices commensurate in magnitude with those expected from the Third World nations that must forgo the use of these ozone-depleting chemicals.

"Arrangements must be worked out in international trade and a new international division of labour must be devised which rewards equitably all nations that ratify and faithfully implement the Vienna Convention and Montreal Protocol."

Industrial companies should, he said, work tirelessly to promote substitutes for CFCs and this information should be passed on to the less industrialised nations.

"Developing countries need tha basic information about which chemicals are safe and which are not," he noted.

In countries like his own, programmes for controlling pollution were still experiencing problems because of technical and financial limitations. This was an area where developed countries could help.

"*Another equally important* matter is the recent practice adopted by soma developed countries of dumping toxic waste in unsuspecting developing countries.

"Such unfriendly actions are equivalent to declaring war on tha earth's ecosystems. We share our planet and we cannot afford to pollute any part of it, no matter how far it is from where we live."

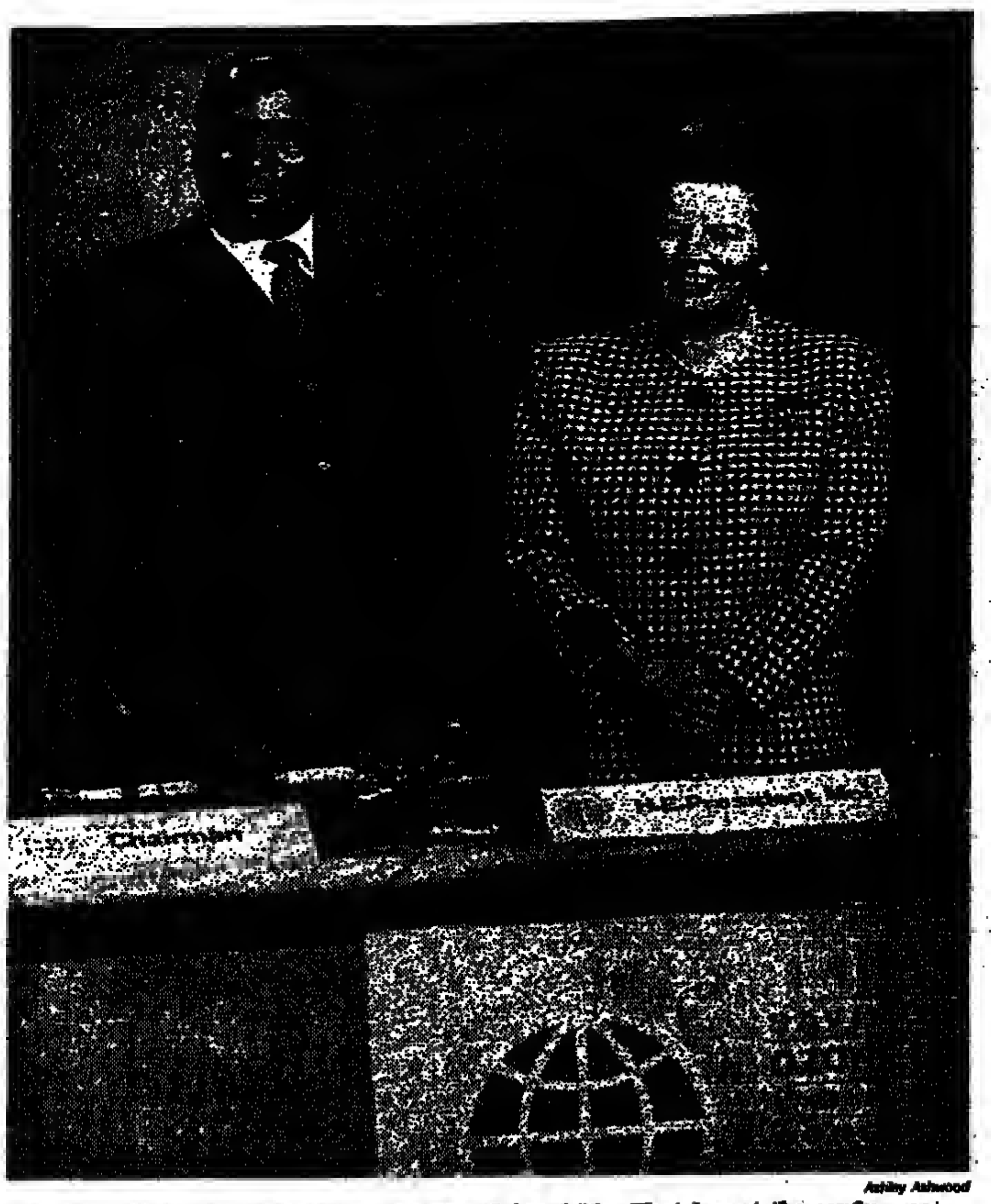
He warned of the threat to the environment resulting from mankind's "mismanagement and sheer greed." The most disturbing evidence was the discovery of the "ozone hole" over the South Pole and that damage was extending gradually towards the equator.

It was estimated that 1 per cent depletion of ozone would increase the incidence of skin cancer by 2 per cent and of eye cataracts by 0.6 per cent.

Other effects were a substantial reduction of the body's immune response system; damage to marine life and to plants *and crops; prolonged droughts* were being experienced in many parts of the world and the UK was enjoying the warmest winter for years after a cold and wet summer. Heatwaves in the US and devastating drought in most parts of Africa, floods and hurricanes in parts of Asia were signs of the worst effects that could follow global warming.

With seas expanding, whole areas, even entire countries, could disappear under water. Vast areas of the *earth* faced the grim future of being turned into dust bowls.

A last chance for the atmosphere, Page 16



Ashley Ashwood

Hoping to save the ozone layer: President Moi and Mrs Thatcher at the conference

Thatcher calls for stricter targets

THE NEED to set stricter and earlier targets for reducing the use of the chemicals which damage the ozone layer was emphasised by Mrs Margaret Thatcher, the Prime Minister, when she spoke briefly at the opening of the conference.

Like President Moi of Kenya, she wanted to see many other countries signing up for the Montreal Protocol, the agreement for reducing the use of CFCs.

She said each of the 124 countries attending the international gathering – the first of its kind – would reach its own conclusions on what was needed and what was feasible by way of reductions, according to its own circumstances.

"But please don't set your sights too low," she urged.

Britain has been pressing for an 85 per cent reduction in CFCs as soon as possible. But last week, together with its EC partners, it adopted the target of a complete ban on these ozone-layer damaging substances by the end of the century.

The Prime Minister stressed that the aim of the conference was not to negotiate binding international agreements. The United Nations, through its UN Environment Programme was the proper framework through which this could be done.

The purpose of the conference was the pooling of knowledge between members of governments, scientists and industrialists, to learn from each other and to improve understanding of the serious implications.

With an eye on the further meeting of the Montreal Protocol countries later this year and another, probably in London next year, she said that the present gathering would *pave the way for further* concerted action.

"But many countries – and that certainly includes the UK – are convinced that we need to go further and faster to accept higher targets and shorter deadlines," she said.

The Prime Minister particularly wished to underline two aspects. First, all countries were affected by damage to the ozone layer. The consequences would not strike only those whose products were doing the most damage.

These countries – a reference to the developed nations who are the main producers and users of CFCs – certainly bore a heavier responsibility than others, she said.

It was up to them to do most to remove the causes of the problem.

But that alone would not suf*fice. All countries must* be ready to take action in a big international co-operative effort.

Second, the problem was not one for governments alone. It would require co-operation with science and industry and the understanding and participation of individuals.

The habits of individual people, their choice of product and the care they exercised would be crucial to success in saving the ozone layer.

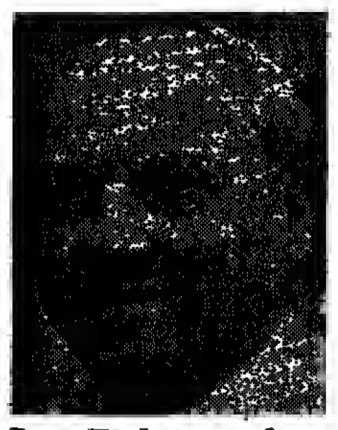
Mrs Thatcher continued: "Our purpose is to find a way which shields the vital balance of nature while allowing the justified hopes of the world's peoples for economic development and well-being to be achieved."

Call for all governments to back protocol

By Patrick Butler

THE DEPLETION of the earth's ozone layer was a trans-national problem, Mr Denys Henderson, chairman of ICI, told the conference. He hoped that all governments would unite behind the Montreal Protocol which aims to reduce the use of ozone-damaging CFCs.

Peter Wallenberg: response of industry is essential



Denys Henderson: go for elimination of CFCs

ICI unequivocally supported the Protocol, he said, but added: "I believe we must go for elimination, not just reduction. I believe, therefore, that *in addition* to the protocol's three existing controls there should be a fourth which takes as its target the elimination of CFCs by a date to be set as soon after 1998 as is practicable, bearing in mind the need to develop safe alternatives."

He was "greatly encouraged" by the recent decisions by the European Community's Council of Ministers and by the US to press for a complete phase-out of CFCs. "My only concern relates to the practicality of *the target date they have set.*"

There were not scientific shortcuts to safe substitutes. CFC manufacturers who were prepared to devote significant resources in the search for substitutes would require a commercial return on their investment.

Nevertheless, ICI was "deeply committed to finding satisfactory answers as quickly as possible and we are investing heavily to achieve that purpose."

ICI recently announced plans for the first commercialised production of an ozone-benign chemical for use in refrigeration.

Mr Archie Dunham, group vice-president, chemicals and pigments at Du Pont, said that his company planned to phase out its CFC production as soon as possible and no later than by the end of the century.

Lord Sainsbury, chairman of J Sainsbury, the big UK retailer, said his company had *introduced* a *new control* system for refrigeration plant used in its stores. During maintenance or alteration engineers were required to decant CFCs in the system into cylinders which were then returned to suppliers.

He said: "I trust that the Government will do all that is necessary to ensure that we develop in this country, which I am told we have not at present, a safe and efficient means of disposal of all unwanted CFCs."

J Sainsbury had sought ways of using R22 – a "soft" CFC not controlled by the protocol – and its first supermarket using it in for refrigeration would open later this year.

Lord Sainsbury urged countries to do all they could to switch to R22 until a totally ozone-benign substitute became available.

Mr Peter Wallenberg, president of the International Chamber of Commerce (ICC), and president of the Federation of Swedish Industries, said the ICC had been taking an increasingly strong interest in the environment for nearly 20 years.

On ozone depletion he said: "*The role of industry in this* drama cannot be denied since industry is both a producer and user of CFCs. Therefore the response of world industry is essential in coming to grips with the problem."

CFC use 'definitely to blame for ozone hole'

By Patrick Butler

MR JOSEPH FARMAN, of the British Antarctic Survey which discovered the hole in the ozone layer in 1984, told the conference there was no doubt that the opening had been caused by the use of CFCs. That use had been "regrettably, largely unnecessary in many cases."

There was six times more chlorine produced by the CFCs in the atmosphere today than there had been in 1900. Most of this increase had taken place since 1960. The presence of CFCs in the atmosphere would last for at least a decade after their production was halted.

"Our present understanding is that the Antarctic ozone hole is going to come back every year for the next 50 years."

He added that most scientists now believed there had been no severe damage on a global scale. But he questioned whether it was possible to continue trusting the reliability of earlier forecasts that overall depletion would be slow.

"If we have learned anything from Antartica, it is that we cannot trust that prediction."

Mr Farman's views were echoed by Dr Robert Watson of the US National Aeronautics and Space Administration (Nasa). Dr Watson led the Nasa team of scientists which uncovered the dangers of depletion of the ozone layer.

Dr Watson said scientific findings had been made within the past 18 months since the signing of the Montreal Protocol. A total of 33 nations, plus the European Community, had ratified the protocol, which aims to reduce use of CFCs by 50 per cent by the end of the century.

"What does it take to protect the ozone layer?" he asked. "Today there are three parts per billion of chlorine in the earth's atmosphere. Before the ozone hole over Antarctica developed, there were only two parts per billion. Even with a fully-ratified Montreal Protocol, the amount of chlorine will increase to at least six to nine parts per billion. In other words, the chlorine will triple over the next few decades."

It was vital to reduce the concentration to its original two parts per billion.

Compliance by all nations was required, he said, together with development of safe substitutes for CFCs.

Dr Maurice Verhille of Atochem said that originally CFCs had replaced butane and propane as propellants in aerosols: industry was now returning to the latter products.

Dr Istvan Lang, secretary-general of the Hungarian Academy of Sciences and commissioner on the World Commission on Environment and Development, who chaired the session, said the benefits of CFCs to industry had demonstrated the importance of finding safe alternatives.

The session, designed to provide the scientific background to ozone depletion, was introduced by Mr Nicholas Ridley, Environment Secretary.

Epic message given archaic touch

THERE WAS a touch of a cinema science fiction epic, such as Star Wars and 2001, as more than 600 government representatives from 124 countries gathered at the Queen Elizabeth II Centre in London yesterday for their unprecedented international meeting on the protection of the ozone layer.

Proceedings got under way with the presentation of some scary videos. Flashed up on a giant screen was a picture of the globe under *threat* with a soundtrack of threatening and ominous music.

This was followed by a colourful and rather archaic touch when President Moi of Kenya made the opening speech. He was accompanied by an immaculately turned-out gold-braided officer of the Kenyan Army, who stepped forward with a swagger stick under his arm. With a crisp Sandhurst salute, he handed the President his speech. Then he stood rigidly to attention while the President delivered it.

Mrs Thatcher, the energetic initiator of this great affair, smiled benevolently from the platform during this ceremony.

Also in evidence was Mr Nicholas Ridley, the Environment Secretary, who many environmentalists also find rather quaint and archaic. He benevolently presided over the ministerial sessions where a rapid succession of ministers from all *over the world were each given five minutes* to say how they proposed to solve the problem of the depletion of the ozone layer.

Mr Ridley, in a vein reminiscent of Lord Hailsham's performance at the Tory party conference many years ago, produced a handbell and warned that it would be *rung if anyone had the cheek to go over* their time limit. However, when he waved it as a demonstration, it merely gave out a silvery tinkle.

The ministerial sessions were preceded by yet another video underlining the dangers of CFCs, including a scene like a glossy TV advert, where a girl seductively shook the golden curls which she had put in place by the use of an aerosol.

"The sun, a thundering ball of fire in our skies, the very fuel of life since the beginning of time," intoned the soundtrack. This portentous note had been matched earlier by President Moi when he warned of the danger of countries disappearing under the sea and huge areas becoming dustbowls as a result of climatic change.

Meanwhile, most of the drama seemed to be taking place in the huge press room where several hundred journalists tried to *cover this sprawling event.* The difficulty was that for security reasons they were kept entirely separate from the government representatives and communication between the two sides seemed almost impossible.

An announcement that a Japanese delegation was giving a press conference sent *a herd of journalists charging* through the corridors to discover its whereabouts. Finally, they burst into the correct room, only to find that the Japanese had left.

A team of bewildered Canadian television men were the only occupants.

As all reporting of the swift ministerial meetings had to be taken off closed-circuit *television, it was difficult, and at times* impossible, to keep track of what the dozens of different delegations were putting forward.

It seemed rather a rum way to run a conference which the Government insisted was primarily intended to disseminate throughout the world crucial information about the ozone layer.

John Hunt

MANAGEMENT

Bain and Co

Playing softball and building up confidence

Michael Skapinker talks to the head of the UK subsidiary of the American consultancy which, apart from its association with Guinness, is best known for its reluctance to talk about its work

Michael Farmer: "There are some things you don't ask"

Michael Farmer insists that his is just a normal company. "We have softball teams. We do silly things and have parties and give awards. We've got internal newspapers."

So why, then, do people think there is something unusual about Bain and Co, the American management consultants whose UK subsidiary Farmer heads? The secrecy, for one thing. Bain people never talk about their work. All consultants maintain their clients' confidentiality. Bain consultants will not even say who their clients are.

Some have become known, however. Guinness was a client which brought Bain much unwanted, and mostly negative, publicity. A Bain consultant, Olivier Roux, became Guinness's director of financial strategy and development, a post he resigned when tha UK drinks group became involved in a major scandal in 1986. The Guinness affair prompted questions from rival consultants abont whether Bain had become too deeply involved in the running of clients' businesses.

Other Bain clients include Baxter-Travenol Laboratories, Chrysler Motors, Dunn and Bradstreet, Owens Illinois and Sterling Drugs. The list appeared in e Fortune magazine article in 1987 and is repeated in a book called Going to Work, a guide for American job-seekers.* Farmer thinks very highly of the chapter on Bain and says it is "pretty accurate".

The author of the book, Lisa Birnbach, was permitted to speak to Bain consultants and was allowed to sit in on a two-week training session for new recruits. Such openness is unusual – as was this on-the-record interview with Farmer, who became UK managing director of Bain earlier this year. An American, he had previously worked for the firm in Paris and Munich.

What is the reason for Bain's sudden conversion to *glasnost*? Farmer says that the company, which was founded in 1973, now has sufficient confidence to let the outside world in. It is difficult to believe, however, that the desire to counter the poor publicity of previous years is not a major factor.

Farmer will not, however, discuss the Guinness affair or its effect on employee morale. He also refuses to discuss any other clients, or even say how many companies Bain works with. He says that Bain's insistence um maintaining client confidentiality was one of the reasons it did not talk to the press in the past.

"We think it's a little like being curious about somebody's marriage. There are some things you don't ask. We feel that we've got that kind of relationship with our clients and we just don't talk about it," he says. "We are afraid people are going to poke into the things that we don't want to talk about. That's why we've kept the press outside."

The other reason that Bain has not wanted any public exposure until now, he says, was that it was too new a company and felt too vulnerable. When Bill Bain left the Boston Consulting Group to set up Bain and Co some doubted that he would make a success of it.

"We were trying something that, when you think about it, had great risks," Farmer says. "When Bill Bain broke eway from BCG he took six people. The Boston Consulting Group was pre-eminent in strategy consulting, did a great job recruiting on campuses and had e very successful programme of seminars for managers.

"For a number of years a few clients were all the revenue we had. People talk about Bain as if the kind of thing we do has been around for ever, but that wasn't the case 10 years ago. I think we felt that the client could go away at any minute and BCG could really get competitive with us. And I think it made us cautious."

So what sorts of thing does Bain do? Is it true that Bain goes further than just advising clients – that it actually takes over the running of the company?

"No," says Farmer. "I object to the phrase 'running the company'. Our clients run their businesses. They make decisions every day. They make pricing decisions. They make prodnct development decisions. They make decisions about how they're going to allocate their resources. They hire people. They fire people. They do all the things that people do running businesses. We don't do that.

"What we do is to develop a perspective on the businesses that we're working with, based on a more complete analysis of data. We get a better fix, say, on how a product is received by customers, how customers perceive the products of a client relative to competitors.

"We structure market research. We try to determine what the client's cost position is relative to competitors. We try to build up what we think is a logical picture of the business.

"If that changes the client's perspective in a significant way, so that past initiatives don't continue to look valid and new initiatives are valid, there certainly can be people in the client organisation who say 'Christ, you know, Bain's running the company' – meaning a change of course has taken place. But the change of course doesn't take place unless the client's management is convinced, based on the picture we have put together. And if they don't like the picture, if they say 'your analysis is wrong for the following reasons', we go back and do it again until there is agreement.

"If you look at how our people actually spend their time, they are interviewing customers, they are analysing competitors, they are reviewing historical information. They're trying to put it together in a form which presents a picture of the business: what it is currently doing today and what it might do."

Are these not the sorts of thing that companies should be doing themselves? "Of course," says Farmer. But they don't? "Well, companies operate in an average environment. They have some outstanding people. They heve some mediocre people. They've got many average people. Everyone is overloaded with work."

Read the work of the American management writer Tom Peters. He makes it clear, Farmer says, that "companies are not really that close to their customers. They don't know what their customers really want or why they want it or why they make the choices that they make.

"I think that, in many respects, the reason that we can exist and thrive is that there are some fundamental problems that exist in the marketplace."

Most consultants hope that their work on particular projects will lead to a client offering them further assignments. Rival consultants claim, however, that Bain insists um a long-term commitment from the start. Does Bain prefer to work with companies over a long period?

"Yes," says Farmer. "We like it if they like it. They like it if they get a high return on their investment in Bain and Company, if we are one of the highest returns on investment that they get. Then it makes sense. We like it because we have a comfortable working relationship with them in an environment of trust where our role is clearly defined."

Isn't it healthier for both sides if consultants work for clients on a project-by-project basis? Does that not help the consultant to maintain *some objectivity and not get too* involved with the client?

To some extent, Farmer says, Bain also works on a project-by-project basis. But it does so under an overall strategic framework agreed with the client. "The list of projects that we work on for a client is an ever-changing list. We work for three to six to nine months on problems, and when those problems are dealt with, we shift to three to six to nine months on other problems. The real difference between what we do and what others do is that all of our projects are linked." In a project consulting firm, they are not, he claims.

A client phones "a project consulting firm because he has a problem he wants them to look at. They work on that thing and they leave. The difference is that we spend a considerable amount of time before we engage in a relationship with a client trying to answer such questions as: 'What is the basis on which we work together? What is it that you are trying to achieve as a management? Where is it that we think we can bring our critical skills to bear on your achieving that objective?' And if we can gain some agreement on that framework, then it's easy for us to think about what kind of projects we might work on in the first phase of the relationship."

If a client asked for no more than a report on how to solve a problem and wanted no further involvement with Bain after that, how would the firm respond? "Clients say a lot of things to us in the beginning that they change their minds about. If I really felt that they were absolutely rigid, had made up their mind that what they wanted was a piece of analysis and a report and that they would do with it as they wished, I think I personally wouldn't be very interested."

**Villard Books. $15.95.*

US consultants may consolidate but not merge

Pratap Chatterjee reports on moves towards creating a single voice and common standards

The majority of US management consultants could be bronght together under a single umbrella if current talks between the country's largest trade organisation and largest professional institute work out.

Last week the Association of Consulting Management Engineers (ACME), which represents 56 firms which employ 40,000 consultants, and the Institute of Management Consultants (IMC), which has 2,400 individual consultants on its roll, sent out a ballot to their board members. In the ballot they proposed to consolidate – but not merge – under a single body, to be called the Council of Consulting Organisations (CCO).

Together, the two represent two-thirds of the management consultents in the US. Although their boards have already agreed on the consolidation in principle, they will have to ask their members to approve it at their respective annual meetings in April.

Similar moves to merge or consolidate trade institutes and associations have been attempted in both Britain and Canada. Significantly, the Canadian provincial professional institutions were created largely through the backing of provincial trade associations.

Both the provincial trade institutes and associations have set up their own national organisations - the Institute of Certified Management Consultants of Canada and the Canadian Association of Management Consultants. The two share the same office and execntive director, Heather Osler, but they are legally separately managed. A task force has just been appointed to look into the question of consolidation to report by the autumn.

In 1987, the two major US trade organisations outside ACME, the Association of Management Consultants and the Society of Professional Management consnltants merged with the IMC. The only other trade organisations with a mass following now are those for internal management consultants (in-company consultants) and execntive recruitment consultants and the Academy of Management.

The consolidation is intended to give the consultants a single voice and to draw up common standards and practices. It is also hoped to persuade some of the larger firms that have so far steered clear of affiliation with any trade organisation to join in.

For instance, ACME represents all of the Big Eight accountancy firms, consultancy practices and some of the bigger non-accountancy based practices like Temple, Barker and Sloane, and the Hay Group. But five of the most reputable firms, namely Bain, Booz Allen & Hamilton, Boston Consulting, Arthur D. Little and McKinsey do not belong to it.

However, some employees of each of the five are certified by the IMC and ACME hopes that the consolidation will sway them into joining. Robert Sabath, chairman of the IMC, has had talks with all five, and is optimistic that they will seriously consider joining.

Both Booz Allen and McKinsey refused to comment on their intentions. Some say they may still decide against it. Harbir Singh, an associate professor of management at the Wharton Business School, Pennsylvania, explains that they may decide that it is to their edvantage not to join. "In the absence of any shared standard, firms use their reputation as a signal of quality and service. They, therefore, work with the most visible of clients."

Another reason for the consolidation is the different international affiliations of the two organisations. The IMC belongs to the International Council of Management Consultancy Institutes, currently based in London with member institutes in 16 countries. ACME has ties with the European management consultants federation, FEACO, and the Japan Management Association.

The two organisations do not plan to merge; what they do envisage is that all the ACME firms will have their employees certified by the AMC. They will also have common ethical guidelines, standards and education programmes.

The IMC members will meet in Arizona on April 6 while ACME members meet in New York on April 17. If all goes well they hope to create the new organisation on May 1.

LEGAL COLUMN

Critics set to challenge Mackay face to face

By Raymond Hughes

AT A conference in London today, critics of Lord Mackay's green papers will have their first chance to challenge him face to face on what Lord Lane, the Lord Chief Justice, has called "one of the most sinister documents to emanate from government."

The Lord Chancellor, for his part, will have the opportunity to try to convince his critics that he intends neither to destroy the Bar nor put the legal profession as a whole under the heel of government.

The standing of some of Lord Mackay's critics, and the emotive language they have used, have tended to obscure the more favourable reactions to the green papers from non-lawyers, such as the Consumers Association, and, indeed, members of the Bar.

For example, the QCs and junior barristers who have formed the 1989 Commercial and Specialist Bar Working Party believe that, far from killing off the Bar, the Mackay proposals are an opportunity to strengthen it both nationally and internationally.

In his first public response to the reaction to his proposals a few weeks ago, Lord Mackay said unambiguously that "I . . . want to emphasise that the legal profession will continue to be independent from the state."

He might have saved his breath to cool his porridge, because that undertaking has been almost totally ignored by his critics, who persist in presenting his proposals as a dangerous form of Big Brotherism.

Yet it is not easy to distil from the outraged rhetoric that has flowed from some of the most eminent members of the legal establishment the precise nature of, or basis for, some of their concerns.

They have attacked the measure of Government control Lord Mackay intends to impose on the profession through his advisory committee on legal education and conduct. While not accusing Lord Mackay personally of bad faith or totalitarian tendencies, they appear to be worried that the machinery he plans to set up could, in the wrong hands, represent a threat to the independence of the judiciary and lawyers generally.

Fears for judicial independence if machinery were to be placed in the wrong hands

However, the Lord Chancellor has made it clear that he regards the existence of a strong and independent judiciary as essential. He has also said that the control of solicitors and barristers – their training, codes of conduct, standards, discipline and certification as advocates – would remain with their professional bodies, the Law Society and the Bar Council.

In other words, the professions will continue to have its own Self-Regulatory Organisations.

All that Lord Mackay is suggesting is that his advisory committee – expanded, and with a 'bare lay majority' – should have a role in ensuring that the profession meets "the needs of the public for the efficient delivery of legal services."

It is to be noted that the proposals require the Lord Chancellor to consult the judiciary before reaching decisions based on the committee's advice.

Much has been made by critics of the proposal that the committee *should supervise* the codes of professional conduct and have some influence on the granting of advocacy certificates.

The green paper states: "The Government is not prepared to leave it to the legal profession to settle the principles which these codes should adopt because they will be of such great importance both to the administration of justice and to the public."

Most people would find those sentiments wholly unexceptionable. Why should the legal profession not be subject to outside scrutiny, or even be under a degree of parliamentary control?

Then there have been pejorative descriptions of the committee as a "quango", with the implication that it will be the compliant creature of government. Quangos, however, are not necessarily either supine or malign, and it is making a large leap to assume that, because the committee will supervise the award of advocacy certificates, it will inevitably follow, for example, that it will wish, or indeed be in a position, to put pressure on individual lawyers in matters about which government may be particularly sensitive.

In the unlikely event that were to happen, it can surely be assumed that the Bar Council and the Law Society – neither of which does the Lord Chancellor propose to emasculate – would be quick to protest – and that the matter would be raised in parliament.

The critics have been more precise in their attack on proposals they say spell the eventual death of the Bar. In that connection it is worth noting that the legal lords who have been among the most outspoken critics are, without exception, former barristers – successful products of the present system. It is understandable that they should have an ingrained inclination in its favour; it does not follow that they are right.

A major fear is of wholesale headhunting of barristers by City law firms. However, Sir Max Williams, joint senior partner of Clifford-Chance, the largest such firm, has said categorically that that will not happen. Also, to be successful, headhunting requires willing heads, and not one barrister to whom I have spoken admits to any interest in giving up his professional independence.

Questionnaire shows that few firms of solicitors will consider the recruitment of barristers

That is confirmed by the responses to a questionnaire sent to commercial and specialist barristers by the 1989 group: the vast majority said they wanted to carry on as independent practitioners.

The group also claims there is growing evidence that few solicitors' firms, in the City or the provinces, have any intention of recruiting barristers. "Indeed," it says, "the evidence indicates that most firms earnestly desire the retention of a strong and independent Bar."

A matter that should give the Bar Council pause for thought is the reluctance of some dissentient barristers to make their views public. In the words of one, people "are made to feel scabs for going against the party line."

Another telephoned me to say that he did not believe the responses of individual barristers to the Bar Council's consultative document on the green papers would give a true picture of the views of the profession as a whole.

He said that he felt unable to express his views publicly for fear of putting his career in jeopardy – and knew other barristers who felt the same.

"I am," he said, "making this call from a friend's chambers because I didn't want to risk being overheard by my clerk."

When that was put to Mr Desmond Fennell, QC, the Bar chairman, he was dismayed. If any barristers had such fears, he said, "they are more than free to write direct to me at my chambers and I will respect the confidentiality."

LEGAL APPOINTMENTS

LAW SOCIETY ADMISSIONS
1st March,1989

ARCH, Mr Osborne LL.B Mr, Canton, Cardiff
BAILEY Simon Christopher LL.B Mr, Handsworth, Birmingham
BALDWIN, Stella Marie Mrs, Carleon, Gwent
BARRY, William Paul Colum LL.B Mr, Warton Nr Ekcleston, Lancashire
BECKFORD-STENNETT, Elaine B.A. Mrs, London
BEG, Anjum Parveen LL.B Mrs, South Harrow, Middlesex
BELL, Michael Kennedy B.A. Mr, London
BELL, Robert Stewart Kenyon B.A. Mr, Wimbledon, London
BENNETT, Elizabeth Mary Miss, Preston, Lancashire
BHALSOD, Kamlesh Jivan LL.B Mr, Morden, Surrey
BIGGERSTAFF, Joan LL.B Miss, Southsea, Hampshire
BIRBECK, Christopher Mark LL.B Mr, Leeds
BRADLEY, Carla LL.B Ms, Mersey, Stockport
BRIDGEWATER, Jane Mary LL.B Mrs, Bristol
BROOKS, Howard Simon LL.B Mr, Manchester
BROOKS, Nicola B.A. Miss, Middlesex
BURROWS, Ann Judith Miss, Stockport, Cheshire
CHAMPTON, Robina Zoe B.A. Mrs, Rugeley, Staffordshire
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CURRIER, Martin Scott LL.B Mr, Telford, Shropshire
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DAVIES, Paul John Mr, Liverpool
DEMPSEY, Ann Caroline B.A. Miss, Nottingham
DIGHTON, Kathleen Sara LL.B Mrs, Birmingham
DOYLE, Kerry Jane Miss, Liverpool
DUGDATE, Nicholas William Solicitor of the High Court of New Zealand Mr, London
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EVANS, Margaret Helen B.SC Ms, Tonyrefail, Mid Glamorgan
FENN, Anthony LL.B Mr, Middlesbrough, Cleveland
FIRBY, Helen Margaret LL.B Mrs, London
FITZSIMONS, Rory James LL.B Mr, Chester
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GILL, Julian David Mr, Pinner, Middlesex
GOODWIN, Catherine Jane LL.B Mr, Swarthmoor Nr Ulverston, Cumbria
GRAY, Timothy Charles LL.B Mr, Walsall, West Midlands
GREIG, John Alaysius Solicitor of the Supreme Court of Queensland Mr, Queensland, Australia
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HALL, Marcus Tremayne LL.B Mr, Louth, Lincs
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HODGE, Catherine Elizabeth LL.B Miss, Harrow, Middlesex
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HOUSTON, James Kenneth Walter LL.B Mr, Belfast
HUNT, Neil John LL.B Mr, Groesfaen Nr Llantrisant, Mid Glamorgan
JACKSON, Karen Jane B.A. Ms, Cornwall
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JESSOP, Lynn Sharron LL.B Miss, New Malden, Surrey
JONES, Beverley Ann LL.B Miss, London
JONES, Deborah Anne Miss, London
JONES, Jill Hinton Mrs, Cambridge
JONES, Julia Margaret B.A Miss, London
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OXLEY, William Mark Peter LL.B Mr, Norwich
PANESAR, Rupa B.A Miss, Epsom, Surrey
PASOTTI, Simona LL.B Ms, London
PLATT, David William M.A Mr, London
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ROUTLEDGE, Susan Margaret LL.B Miss, Stockport
SCOTT, Sarah Mrs, Gateshead, Tyne & Wear
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TALBOT, Michael Bruce John LL.B Mr, London
TAYLOR, Thomas Gibbons Mr, Hampton
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TURNER, Alan LL.B Mr, Tyne & Wear
TWYBLE, Michael Stewart Mr, Ilford, Essex
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WHITLOCK, Helen Mary Miss, Hartshead, Sheffield
WILD, David Thomas B.A Mr, Manchester
WILD, Vivienne Margaret LL.B Mrs, Sheffield
WILKINSON, Andrew George B.A Mr, London
WILLIAMS, Linda Ann LL.B Ms, London
WILLIAMS, Richard Gareth Emery LL.B Mr, Liverpool
WONG, Kwong Hing Solicitor Of The Supreme Court Of Hong Kong Mr, Central Hong Kong

CONSTRUCTION CONTRACTS

Building over busy station

BOVIS CONSTRUCTION, a member of the P&O Group, has been awarded a £60m management contract by Speyhawk to build a complex 341,000 sq ft office development over Cannon Street Station.

Spanning the busy commuter station, this free-standing structure will comprise two office buildings erected on a 6,000 tonne steel deck constructed over the station's eight platforms and above Cannon Sports Centre.

The steel deck will be supported by about 50 heavy-duty steel columns each weighing, on average, 30 tonnes. These will be threaded down through the Victorian station platforms and brick arches beneath to bear on pile caps.

The steel deck will be built in a complex operation involving a 450 tonne mobile crane to erect three American Manitowic 4100 cranes and place them on the first section of the deck, erected from the road. In some instances the cranes will need to be operated in tandem to position the 11.5 feet deep, 85 feet long, 200 tonne steel plate girders.

These girders cannot be transported in one piece and need to be fabricated on site.

The larger building in the development will provide about 190,000 sq ft of office space on six floors and will be situated south of Dowgate Hill and across Upper Thames Street. This will be connected to the riverside building via a glazed link raised through a central glazed atrium.

The two-storey riverside office building will be built on the steel deck and contained within the two station flank walls, which will be rebuilt, providing 95,000 sq ft of office space. This building will project slightly beyond the listed Victorian water towers which have recently been restored and form the riverside boundary to the development.

Three escalators will rise 36 feet from Dowgate Hill to provide access to the central atrium area.

Industry indicators buoyant

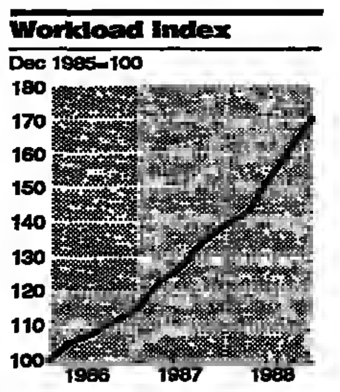
By Andrew Taylor, Construction Correspondent

INCREASED DEMAND for offices, leisure developments and shops meant that construction orders continued to rise during the final three months of last year, according to an industry survey published today.

The study, published by the Royal Institution of Chartered Surveyors, showed that order books of quantity surveyors rose by 22 per cent last year.

Quantity surveyors' order books provide one of the earliest indications of work coming into the construction industry, said the Institution. It said quantity surveyors were most heavily involved during the preliminary stages of a development.

According to the Institution, orders books of quantity surveyors during the final three months of last year increased by 5.9 per cent compared with the previous three months.



Order books for office and retail development rose by a quarter last year, and by 7.5 per cent during the final three months of the year. Last year office and retail orders increased by 25 per cent.A quarter of all work was refurbishment, said the Institution.

It said: "Refurbishment is likely to remain buoyant as firms become aware of the potential of their existing property and the importance of streamlining their operations. Companies are realising that their property is a vital part of their assets and corporate identity."

Quantity surveying workloads in the north of England rose by 9 per cent during the final three months of last year, outpacing other regions. This was partly due to a large increase in construction in Sheffield as the city prepared for the 1990 World Student Games, said the Institution.

It said higher interest rates had delayed rather than halted investment in construction. Housing workloads currently were stable rather than falling.

Shopping centre in Norwich

Close on the heels of the recent announcement by the Secretary of State for the Environment approving road closure proposals and compulsory purchase orders, the developers of Norwich's £100m 350,000 sq ft Castle Mall Shopping Centre have appointed BOVIS as the management contractor for the project.

Bovis will co-ordinate all aspects of the £45m building contract. The company anticipates making a start on construction in mid-year, while the second phase of the archaeological excavation - due to begin in the spring - is progressing in parallel.

The construction programme will take special account of the time needed to carry out one of the largest archaeological investigations in Western Europe, an activity which is expected to take an additional 15 months. Bovis is, therefore, working in very close liaison with the archaeologists.

It is anticipated that much of the labour force will be local and at the peak should number 300.

Castle Mall is expected to open in autumn 1992. It will provide space for five stores, 52 shop units, a selection of catering outlets and parking for over 1,000 cars.

The project is being funded by Friends' Provident Life Office, together with Estates & General.

Changing the face of Birmingham

LINFORD's Cannock-based building division has won over £10m of new construction business in the West Midlands.

The largest contract is the conversion of one of Birmingham's landmarks, the multi-storey TI House office block at Five Ways, Edgbaston, into a five star Swallow Royal Hotel.

Under a £6.5m award from Swallow Hotels, part of the Vaux Group, Linford will convert and remodel the interior to create entrance, reception, lounges, bars, restaurants, brasserie, meeting rooms, and 98 luxury en suite bedrooms on the upper floors. Already underway, the conversion is scheduled for completion in December, 1989.

Linford has also secured a contract for a large factory and offices for Merlin Gerin at Telford. On Stafford Park Industrial Estate, the detached factory will be constructed on a steel frame with metal cladding to provide over 5000 sq metres of production, assembly and storage space and a matching office block with close to 3000 sq metres of accommodation on three floors.

Kingswood business centre extension

A major refurbishment and building project is included in contracts worth about £19m awarded to TARMAC CONSTRUCTION. The company has a contract, valued at about £7.2m, for work on premises at Kingswood Business Centre in Millfields Lane, Tadworth, Surrey. It involves refurbishing and extending a two-storey building, formerly a printing works, to provide 80,000 sq ft of air conditioned offices. Work on the project, for the International Development Partnership, is scheduled for completion at the end of the year.

In London the company has a contract from Clayform Properties, worth about £5m, for building flats in Bishops Bridge Road, Bayswater.

Enfield hospital project

COSTAIN CONSTRUCTION, a subsidiary of Costain Group, has been awarded a £5.3m contract by North East Thames Regional Health Authority for advance works to the overall development of the new Enfield District Hospital on the site of the Chase Farm Hospital, The Ridgeway, Enfield, Middlesex.

The contract comprises the construction of a works and stores building providing a floor area of about 1,400 sq metres, together with a multi-storey car park for 580 cars.

The contract also provides for a temporary car park, new link roads, all services for the new building and landscaping.

Work has recently commenced and is due for completion in January 1990.

Patent Office building

DOUGLAS CONSTRUCTION has begun work on a £16.5m contract from the Property Services Agency to build a Patent Office in Newport, South Wales.

Construction work on the 30,000 sq metre site will be undertaken by the company's South Wales division, based at Swansea.

The Patent Office will be relocating from London and it is estimated that the move will create 500 jobs locally.

The contract is scheduled for completion by November 1990.

DIARY DATES

PARLIAMENTARY

Today

Commons: Self-governing Schools (Scotland) Bill, second reading.

Motion on Scottish Community Charge Regulations.

Motion on Access to Personal Files (Housing) Regulations.

Lords: Companies Bill, committee.

Elected Authorities (Northern Ireland) Bill, report.

Question to the Government on Mr Salman Rushdie's book The Satanic Verses.

Select committees: Public Accounts: subject, heart disease. Witnesses: Sir Christopher France, Department of Health, Mr W. Reid, Scottish Office, and Sir Richard Lloyd Jones, Welsh Office. (Room 16, 4.30 p.m.)

Environment: subject, British Waterways Board. Witness: British Waterways Board. (Room 21, 5.15 p.m.)

Tomorrow

Commons: Estimates Day.

Debate on assistance to the egg industry.

Debate on funding overseas students. Question on outstanding supplementary estimates and votes at 10 p.m.

Lords: Prevention of Terrorism (Temporary Provisions) Bill, report.

Football Spectators Bill, committee.

Select committee: Education, Science and Arts: subject, supply of teachers for the 1990s. Witnesses: National Union of Teachers and National Association of Schoolmasters/Union of Women Teachers. (Room 16, 4.15 p.m.)

Wednesday

Commons: Motions on Northern Ireland Emergency Provision Orders.

Debate on EC document relating to heavy lorry weights and dimensions.

Lords: Debate on teacher shortages.

Debate on international traffic in toxic wastes.

Unborn Children (Protection) Bill, second reading.

Select committees: Parliamentary Commissioner for Administration: subject, Health Service Commissioner's report. Witnesses: North Staffordshire Health Authority and Bexley Health Authority. (Room 19, 10.30 a.m.)

Trade and Industry: subject, financial services and the single market. Witnesses: Department of Trade and Industry officials. (Room 15, 10.45 a.m.)

Welsh Affairs: subject, Implications for Wales of the Channel Tunnel. Witnesses: Section 40 Passenger and Freight Working Parties, Standing Conference on Regional Policy in South Wales and Welsh Counties Committee. (Room 18, 10.30 a.m.)

Defence: subject, staffing levels in the procurement executive. Witnesses: Ministry of Defence officials. (Room 16, 10.50 a.m.)

Energy: subject, energy policy implications of the "greenhouse effect." Witnesses: the Electricity Council and the Central Electricity Generating Board. (Room 5, 11 a.m.)

Transport: subject, roads for the future. Witnesses: Cheshire County Council, East Sussex County Council, Nottinghamshire County Council, West Sussex County Council and the Scottish Office. (Room 17, 4.15 p.m.)

Social Services: subject, listeria. Witness: Sir Donald Acheson, Chief Medical Officer, Department of Health. (Room 21, 4.15 p.m.)

Thursday

Commons: Debate on the Royal Air Force.

Lords: Official Secrets Bill, second reading.

Motions for approval on Unfair Dismissal, Employment Protection, and Local Elections (Northern Ireland) Orders.

Question to Government on the training of veterinary practitioners.

Select committee: Court of Referees. (Room 13, 11.30 a.m.)

Friday

Commons: Private Members' motions.

FINANCIAL

TODAY
COMPANY MEETINGS-
Brooke Tool Engineering, Cutlers Hall, Church Street, Sheffield, 12.00
Granada Group, Savoy Hotel, W.C., 11.30
Thornton (G.W.), Bridge House, Bridge Street, Sheffield, 12.00
Utd. Scientific Hldgs., Savoy Hotel, W.C., 12.00
BOARD MEETINGS-
Finals;
Chestergate
Fleming Claverhouse
Impala Platinum
Interims;
Excalibur Jewellery
Howard Hldgs.
DIVIDEND & INTEREST PAYMENTS-
Assoc. Brit. Foods 2.8p
BFG Finance Fltg. Rate Nts. 1995 $234.38
Chemical Banking Corp. Gtd. Fltg. Rate Sub. Nts. 1996 $233.44
Dares Estates 8% Un. Ln. 1992/97 4pc.
Ellis & Everard 2p
Hampson Inds. 0.56p
Hardys & Hansons 16.3p
IMI 7¼% Un. Ln. 1986/91 3⅝pc.
Joseph (Leopold) 9¼% Un. Ln. 1997/2002 4⅝pc.
Lockheed Corp. 40cts.
Mecca Leisure Grp. 2.75p
Penfida Grp. 1.75p
Prism Leisure 1.5p
Racal Elect. 1.485p
Rockwell Int. 18cts.
Thornton (G.W.) Hldgs. 2.8p
Waddington (John) 10½% Deb. 1990/95 5¼pc.
Whitbread 9¾% Red. Deb. 1991/96 4⅞pc.
Yorkshire Chemicals 10% Deb. 1991/96 5pc.
TOMORROW
COMPANY MEETINGS-
Kelsey Inds., Kelsey House, Wood Lane End, Hemel Hempstead, 11.00
Sturge Hldgs., General Council for British Shipping, 30, St. Mary Axe, E.C., 11.30
BOARD MEETINGS-
Finals;
Aaronson Bros.
Beckenham Grp.
Securicor
Security Services
Tiaghur Jute Factory
Interims;
Cray Elect.
Hellas
Unitech
DIVIDEND & INTEREST PAYMENTS-
Barclays Bank 7½% Un. Cap. Ln. 1986/91 3¾pc.
Cons Gold Fields Fin. Gtd. Fltg. Rate Nts. 1995 £168.44
Konick 1p
Prudential Corp. Fltg. Rate Nts. 1995 £327.84
Sainsbury (J.) 7¼% 1st. Mtg. Deb. 1987/92 3⅝pc.
WEDNESDAY MARCH 8
COMPANY MEETINGS-
Lookers, Lancashire County Cricket Club, Talbot Road, Stretford, Manchester, 12.00
BOARD MEETINGS-
Finals;
INOCO
P & P
St. Modwen Props.
Scottish American Inv.
Sutherland Hldgs.
Union Discount
Interims;
Davies (D.Y.)
Hambro Currency Fd.
DIVIDEND & INTEREST PAYMENTS-
Australia (Commonwealth Bank of) 9⅝% Nts. 8/3/93 4$\frac{13}{16}$pc.
Bank of Ireland Und. Fltg. Rate Prim. Cap. Nts. $240.82
Chase Manhattan Corp. Fltg. Rate Nts. 2009 $239.06
Gold Fields of South Africa 16.368874p
Hongkong & Shanghai Banking Prim. Cap. Und. Fltg. Rate Nts. 2nd. Ser. $120.31
Kelsey Inds. 7.5p
Renold 7⅛% 2nd. Deb. 1992/97 3$\frac{9}{16}$pc.
Treasury 10% 2003 5pc.
Western Selection 2p
THURSDAY MARCH 9
COMPANY MEETINGS-
Gardiner Group, Strathallan Hotel, 225, Hagley Road, Birmingham, 12.00
BOARD MEETINGS-
Finals;
Cons Bultfontein
Griqualand West Diamond Mining
Scandanavian Bank
Sycamore
Throgmorton Tst.
Ward Grp.
Interims;
Bryant Grp.
Elbief
Portsmouth & Sunderland Newspapers
Ransom (William)
Zurich Grp.
DIVIDEND & INTEREST PAYMENTS-
Anheuser-Busch 18cts.
Brunning Grp. 1.75p
Christiania Bank OG Kreditkasse Fltg. Rate Sub. Nts. 1994 $446.22
Do. Fltg. Rate Sub. Nts. 2001 $438.79
First Interstate Overseas Gtd. Fltg. Rate Sub. Nts. 1995 $235.94
Harrison Inds. 2.1p
Nobo Grp. 2.2p
Royal Bank of Canada Fltg. Rate Deb. Nts. 2085 $237.5
FRIDAY MARCH 10
COMPANY MEETINGS-
French (Thomas), Lancashire County Cricket Club, Talbot Road, Stretford, Manchester, 11.00
INOCO, Park Lane Hotel, Piccadilly, W., 10.45
London Scottish Bank, St. James's Club, St. James's House, Charlotte Street, Manchester, 12.00
Stainless Metalcraft, Chatteris Engineering Works, Chatteris, Cambs., 12.00
BOARD MEETINGS-
Finals;
Anglo & Overseas Tst.
Grahams Rintoul Inv. Tst.
Inv. Tst. of Guernsey
Manchester Ship Canal
Stainless Metalcraft
Interims;
Second Alliance Tst.
DIVIDEND & INTEREST PAYMENTS-
Agricultural Mortgage Corp. 6⅝% Deb. 1985/90 3$\frac{5}{16}$pc.
Allied-Signal 45cts.
B.C.E. Hldgs. 0.4p
BankAmerica Corp. 15cts.
Boeing 40cts.
Chevron Corp. 70cts.
Co. of Designers 2.4p
Dun & Bradstreet 43.5cts.
Exxon Corp. 80cts.
General Motors 150cts.
Grace (W.R.) 35cts.
Houston Inds. 74cts.
IBM 118cts.
Lawson Mardon Class A Sub. Vtg. 10cts.
Lebowa Platinum Mines 2.5cts.
Mobil Corp. 60cts.
Monsanto 70cts.
National Medical Enterprises 17cts.
Norweb (Lock) 2.5p
Park Food Grp. 1.95p
Primadona 1.33p
Rustenburg Platinum 115cts.
Scott Paper 20cts.
Squibb Corp. 50cts.
Sun Co. 45cts.
Texaco 75cts.
Time Inc. 20cts.
Travelers Corp. 60cts.
Treasury 5½% 2008/12 2¾pc.
USX Corp. 60cts.
Utd. Technologies 40cts.
Warner-Lambert 84cts.
SATURDAY MARCH 11
DIVIDEND & INTEREST PAYMENTS-
London Scottish Bank 1.4p

Trade Fairs and Exhibitions: UK

March 7-April 2
"Daily Mail" Ideal Home Exhibition (01-222 9341)
Earls Court

March 12-14
British Footwear Fair (01-739 2071)
NEC, Birmingham

March 16-19
Cable and Satellite Exhibition (01-486 1951)
Olympia

March 19-21
International Cycle & Leisure Fair (01-390 2211)
Olympia

March 21-22
British Institute of Management Exhibition and Conference (0536 204222)
Wembley Conference Centre

March 24-25
Cash and Carry Fashion Fair (01-727 1929)
Kensington Town Hall, London

March 29-31
Fashion Fabrics Exhibition – FABREX (01-385 1200)
Olympia

March 30-April 5
British International Antiques Fair (021 780 4171)
NEC, Birmingham

April 3-5
London International Book Fair (01-940 6065)
Olympia

Overseas Exhibitions

March 9-19
International Motor Exhibition (Geneva 41 22 981111)
Geneva

March 12-18
International Spring Fair (0375 392222)
Leipzig

March 17-20
International Footwear Fair-GDS (01-794 0166)
Dusseldorf

March 23-28
International Nuclear Technology and Instrumentation and Equipment Exhibition – NT & IE CHINA (01-229 2616)
Beijing

March 30-April 9
international Household Fair – HUISHHOULDBEURS (01-741 4437)
Amsterdam

April 3-8
International Plastics and Rubber Industries Exhibition – CHINAPLAS (045382 8989)
Shanghai

April 4-7
International Airport and Aerospace Engineering Exhibition and Symposium (01-493 0992)
Osaka

Business and management conferences

March 6
Financial Times Conferences: The London Motor Conference – *Manufacturing, Components and the Aftermarket* (01-925 2323)
Hotel Inter-Continental, London

March 10
CBI: Competitive advantage (01-379 7400)
Centre Point, London

March 13-14
ICM Marketing/York MDM: Logistics in manufacturing (0532 426314)
Cafe Royal, London

March 14
Institution of Mining and Metallurgy: Metals 2000 – A definitive assessment of trends in the major metals over the next decade (01-580 3802)
Park Lane Hotel, London

March 15
PRO NED/Birmingham Chamber of Industry: Non-executive directors – a way to building a better business (01-637 2281)
Edgbaston Banqueting Centre

March 16-17
Institute for International Research: Workstations for the dealing room – the means to achieve full trading flexibility at minimum cost (01-434 0230)
Cafe Royal, London

March 20-21
Financial Times Conferences: Retailing in the 90's – *The role of technology* (01-925 2323)
Hotel-Inter-Continental, London

March 20
Blenheim Online: Introduction to OSI (01-868 4466)
Queen Elizabeth II Conference Centre, London

March 21-22
IPM Personnel Management Services: The acts of employment (01-946 9100)
Rubens Hotel, London

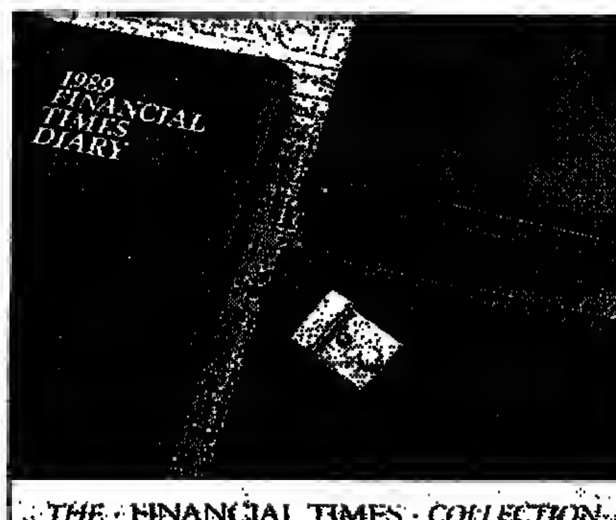
March 22
The Institute of Economic Affairs: Tensions and opportunities in Britain's EC relationships (01-799 3745)
Queen Elizabeth II Conference Centre, London

March 30
HS Conference Studies/ Property Management: Property management – New solutions to current problems (01-935 2382)
Cavendish Conference Centre, London

April 3-7
EUUG: UNIX-European Challenges (44763 73039)
Brussels

April 4
CBI Conferences/Direct Marketing Centre: Agenda for change (01-379 7400)
Centre Point, London

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published



Capitalisation £000's	Company	Price	Change on week	Gross div (p)	Yield %	P/E
10475	Ass. Brit. Ind. Ord	312xd	0	10.3	3.3	8.4
-	Ass. Brit. Ind. CULS	308	0	10.0	3.2	-
900	Armitage and Rhodes	36	-1			
2567	BBB Design Group (USM)	31	+2	2.1	6.6	4.9
104935	Bardon Group (SE)	153	-1	2.7	1.8	26.2
18499	Bardon Group Cv. Pref. (SE)	106	-1	6.7	6.3	-
7379	Bray Technologies	122	0	5.2	4.3	8.9
	Brenhill Conv Pref	107	0	11.0	10.3	-
1140	CCL Group Ordinary	300	+5	12.3	4.1	4.5
2188	CCL Group 11% Conv Pref	175xd	+4	14.7	8.4	-
16740	Carbo Plc (SE)	160	+2	6.1	3.8	13.9
770	Carbo 7.5% Pref (SE)	110	0	10.3	9.4	-
7049	George Blair	382xd	+2	12.0	3.1	8.4
9639	Isis Group	121xd	0	-	-	25.9
14216	Jackson Group (SE)	135	+5	3.3	2.4	14.9
25783	Multihouse N.V.(AmstSE)	309	0	-	-	-
1020	Robert Jenkins	100	+2	7.5	7.5	3.8
18540	Scrattons	412	+6	8.0	1.9	37.5
8469	Torday & Carlisle	274	+2	7.7	2.8	13.3
	Torday & Carlisle Conv Pref	107	+1	10.7	10.0	
4518	Trevian Holdings (USM)	105	+1	2.7	2.6	11.3
-	Unistrut Europe Conv Pref	110	0	8.0	7.3	-
6221	Veterinary Drug Co. Ltd	377	0	22.0	5.8	9.3
8064	W. S. Yeates	360	-8	16.2	4.5	69.2

FT 30	FTSE 100	WALL STREET
Mar. 1692/1701 +33	Mar. 2056/2066 +40	Mar. 2258/2270 +17
Jun. 1726/1735 +32	Jun. 2098/2108 +39	Jun. 2287/2299 +16

Prices taken at 5pm and change is from previous close at 9pm

	Per line (min 3 lines)	single col cm (min 3 cms)
	£	£
Appointments	14.50	49.00
Commercial & Ind. Property	12.50	43.00
Residential Property	10.00	36.00
Business Opportunities	14.50	51.00
Businesses For Sale/Wanted	13.50	46.00
Personal	10.00	35.00
Travel	10.00	35.00
Contracts, Tenders	13.50	46.00

ARTS

ARCHITECTURE

Conservation in the Yemen

All of us harbour an inner vision of a mythical walled city: a dream of decorated spires and towers, narrow streets and secret entrances. Divest that image of its European medievalism, reclothe it in brick, lime and gypsum, scatter the skyline with Ottoman minarets and swathe the streets in dust and debris, and there is Sana'a, capital of the Yemen Arab Republic.

The wonder is not what the city was, but that it *is*. That somehow, through the fluctuating involvement of an international rescue campaign, of innumerable reports and piecemeal foreign aid programmes, the old city is being well conserved and appears flourishing. Most of the mud city walls have disintegrated, but the old city remains isolated from the surrounding modern town and its older quarters by a ring of dusty streets, a no-man's land where tarmaced roads end.

In spite of this barrier, in spite of a lack of public amenities and the difficulty of vehicular access and parking, the city has vitality and continuity. The suqs, of course, are the life-blood of the old city, but unlike other Madinas in the Yemen Arab Republic Sana'a still maintains a coherent inner-city life. This must be attributed to the successful campaign of the Office for the Preservation of the Old City, working hard to upgrade areas of the old city and badly in need of additional financial resources for the next stages of its programme.

Sana'a's tower houses rise to six or seven stories, with the small-opening and single-doored lower stories of stone, the upper levels of baked brick, dizzily decorated with elaborate brick patterning, often picked out in lime-wash. Windows, sometimes circular, sometimes still glazed with thin sheets of alabaster, plot an irregular course up the facade; the more formal rooms are crowned by arched fanlights of gypsum tracery, filled with coloured glass. At night the houses glow with coloured patterns; during the day, the white window surrounds become part of the elaborate decoration of each individual facade.

High houses have existed in Yemen since pre-Islamic times. Although not many houses in Sana'a are more than 300 hundred years old, most are built on ancient foundations. At intervals between the tall houses are walled and sunken market gardens, still green with cultivation and once fertilised by the burnt and pulverised waste from long-drop lavatories.

The collapse of this urban eco-system has led to some of the large problems in conserving the fabric of the ancient city. Piped water, laid on by the World Health Organisation in the 1970's, meant such a heavy increase of water waste through leaking plastic pipes, overflowing cesspits from flush-toilets, and lack of street drainage to cope with summer floods, that many houses subsided and collapsed.

MIT and Cambridge Professor Ronald Lewcock, in his UNESCO report of 1982, *The Campaign to Preserve the Old City of Sana'a*, stressed this as one of the urgent problems needing attention and indeed the recent, if partial campaign for cobble-paving some of the large streets in the Old City has been accompanied by a major relaying of services, *including electricity, water, sewage and storm drains.*

Model projects have been undertaken within the old city to promote the propaganda value of preservation, including certificates for "good conservation" to co-operative landlords, and foreign-funded special projects, such as the Norwegian Government-aided restoration of the Samsarat (caravanserai) al-Mahas, which is almost complete.

Stringent controls on the use of traditional materials and techniques, and the requirement of planning permission both for internal and external alterations keep costs at a premium.

Although recommendations have been made for the establishment of a development bank, as yet there is no system of offering incentive loans to landlords for conservation. However, although rich owners prefer to live outside the old city (as for example in Fez, a city facing a comparable problem), foreign residents, such as Egyptians and Syrians in the teaching corps, are increasingly eager to reside within the old city as its prestige value rises, and house rentals are high.

Many of the caravanserai, market-gardens, hammams, and shops are owned by the Ministry of Endowments who are collaborating on conservation projects; the ministry, however, has been less ready to accept recommendations on the restoration of the city's hundred-or-so mosques. The disappointment for visitors is that although mosque domes and minarets dominate the city skyline, access is *difficult* for non-Muslims and forbidden to women.

The Office for the Preservation of the Old City, headed by Dr Abdul Rahman Al-Haddad with its corps of Yemeni architects and engineers, swelled by experts from North Korea, continues to collaborate with foreign experts.

The Dutch and Germans have been involved with phases three and four of road paving; the French will provide machinery for the restoration of part of the south city walls. *The Japanese might fund a* future project for paving the the wadi which cuts through a corner of the city and is used *as a main traffic artery during* the dry season. Plans are also afoot to build new bridges over the wadi. A study for street and house lighting is presently under way and it is hoped that the British will collaborate on this "lamp project."

The big problem facing the regeneration of the Old City of Sana'a – and indeed most of the Yemen Arab Republic – is that of garbage disposal and the inability of the population to recognise the hazards of non-bio-degradable litter.

Yemeni towns and villages are knee-deep in tins, plastic bottles, old cartons, disposable diapers, and the deserts literally bloom with deadly pink, green and blue plastic bags, a pallid infestation that shifts and ebbs with the wind-devils.

In Sana'a, both the Dutch and American Peace-Corps have prepared studies on dealing with the problem and there are the beginnings of a television advertising campaign, but *it should be regarded as a* major priority.

There are long-term plans in the Old City for clearing the *rooftops of unsightly* aerials and water tanks: much more urgent is the need to sift the dust.

In the beautiful coastal plain town of Zabid, the garbage problem is less problematic as proud house-owners continue to sweep the streets in front of their brick-walled courtyard houses.

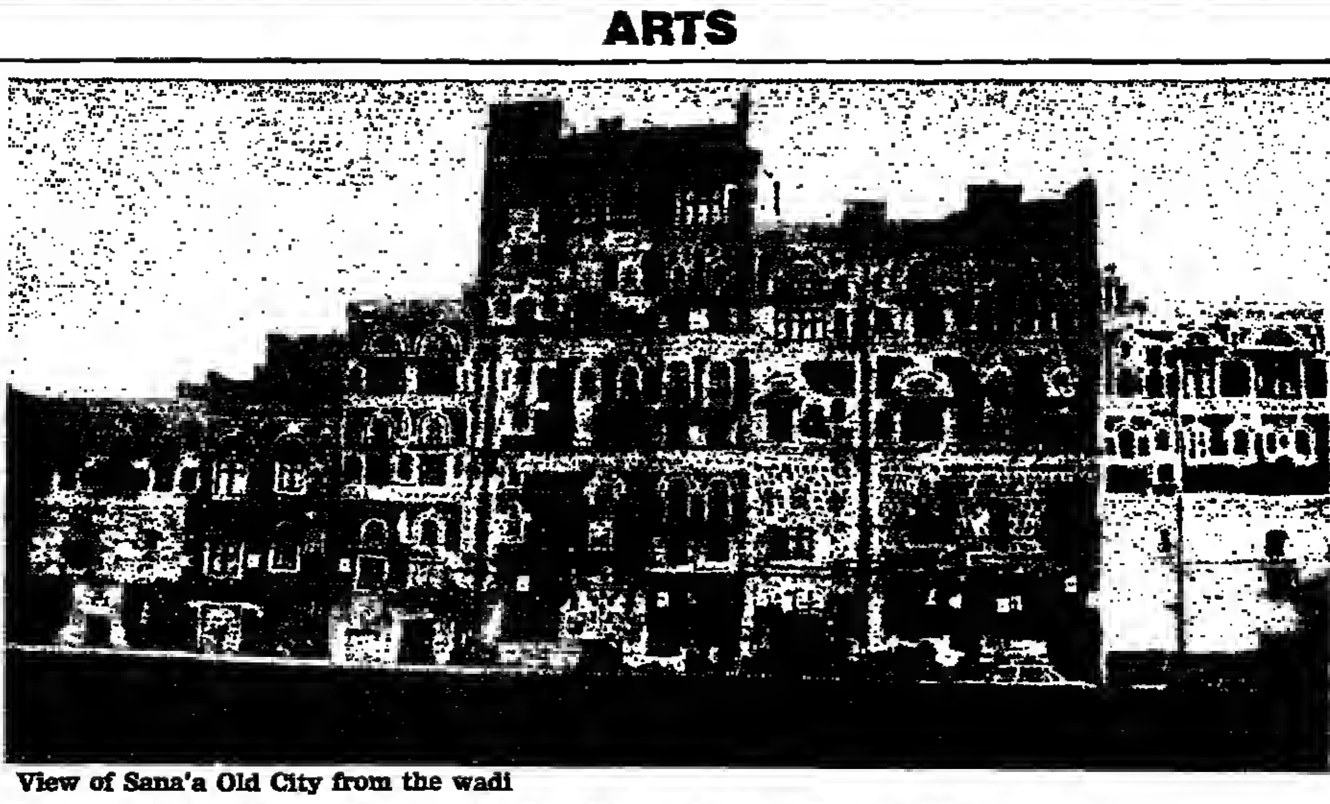
The low relief decorations on the internal façades of Zabid houses are rich and complex, and still beautifully maintained. The 9th century Great Mosque in Zabid is one of the great buildings in the Yemen Arab Republic. There are plans for a conservation campaign for Zabid and presumably, care will be taken that it deals with the urban structure as a whole and involves the inhabitants.

★

A seminar on Urban Issues in Sana'a *will be held in Sana'a* June-July 1989.

Yemen: Three hundred years of arts and crafts in Arabia Felix is at the Tropen Museum, Amsterdam until September 1989.

Deanna Petherbridge



View of Sana'a Old City from the wadi

SPONSORSHIP

Lack of funding sharpens the wits

Few arts organisations are more adept at attracting sponsors than the Royal Academy. It has to be good – it receives no funding from the Arts Council and must survive on its wits. Its best card is that it asks potential backers of its exhibitions to provide a guarantee against loss: if a show captures the public imagination and does well at the box office the sponsor pays nothing for the publicity, good will, and entertainment opportunities it has garnered from the deal.

In the old days, when the RA was naive, a sponsor could actually make a profit. The Imperial Group recouped enough from sponsoring a show of the treasures of Pompeii to fund an educational trust. To the justifiable chagrin of the RA, Imperial has never sponsored another exhibition there.

Last year, out of five major RA exhibitions, three – the pictures of Baron Thyssen, sponsored by The Times to the tune of £100,000; early Cezanne, supported by Chase Manhattan with £150,000; and the graphic art of Toulouse-Lautrec, to which Reed contributed roughly the same sum – just about broke even, and brought the sponsors their money back.

Two, *The Age of Chivalry*, which cost Lloyds Bank £400,000, and the Henry Moore retrospective, underwritten by Salomon Brothers, absorbed all the sponsors' money. Obviously this is an all or nothing gamble, which appeals to the entrepreneurial instincts of many businessmen, although both Lloyds and Salomon claim to be happy with the non-financial return they got from the venture.

This year the RA is aiming to bring in £1.4m from sponsorship, compared with £500,000 just four years ago. It has already attracted its biggest single sponsorship: the Swedish finance company Gamlestaden is putting up £450,000 to underwrite the *Royal Treasures of Sweden 1550-1700*.

The substantial sum is eaten up by conservation, transport and insurance costs to cover such rare items as Queen Christina's coronation coach, which will grace the Academy's forecourt.

The RA, and Gamlestaden, will need 2,000 visitors a day to break even, but the company regards the show as an ideal vehicle for a marketing push, not only to meet potential new clients in the UK and the continent but also to strengthen ties with its customers in Sweden. At one strike it gives the company an Establishment profile.

The RA is well booked for the next 18 months, with Unilever taking care of a Frans Hals exhibition early in 1990, and Digital, famous for its dance sponsorships, backing Monet. The embarrassing gap is the major photography exhibition in the autumn. Virtually every big museum in the world is celebrating 150 years of the medium and the RA, to its surprise, failed to link up with a global film or camera company. It is now looking for four sponsors prepared to cough up £100,000 each rather than one willing to underwrite the whole operation. It is also open to offers for its Summer Show.

The RA has also been successful in signing up corporate friends who buy into a varied list of privileges, from discounts for their staff on tickets, to special evening views. Now other arts groups are offering similar deals to business. Covent Garden has come up with a First Night Club, which guarantees seats to premières – at a price. This has greatly upset some of the Opera House's regular patrons, especially those who shower dancers and singers with flowers from the front rows, who now lose their traditional seats.

The latest institution to embrace corporate friends is the National Theatre, which on Wednesday unveils its scheme under the patronage of Lord Young of Graffham. You can plug in at four levels, from a Platinum Contributor who pays £10,000 a year plus VAT and gains thirty tangible benefits, down to the £1,000 plus VAT for the Bronze Contributor, with four free seats for six previews and other more humble treats.

★

Regional orchestras have more financial problems than most arts organisations, but the City of Oxford Orchestra has just received a fillip which enables it to plan a more ambitious future. It came in the form of a surprise £100,000 sponsorship over four years from the Marlow based house builders, Royco.

It was very much the idea of Royco's founder Rob Clarke whose main aim with the link is to "have some fun." Apart from a Royco series of concerts in Oxford, the orchestra will tour the surrounding towns where the company is building estates. In a very real sense it will become the "house" orchestra of Royco, descending on its most important site, Watermead, in June to play for the new home owners.

★

Film is an over-looked sponsorship opportunity, but now the National Film Theatre is making strenuous efforts to tempt in supporters. Its pitch has been greatly boosted by the opening of the Museum of the Moving Image next door which offers that most sought after accessory, a more interesting new venue for corporate hospitality.

This was of little interest to the NFT's latest sponsor, the Transport and General Workers Union. It put up around £3,500 to provide an information dossier and to improve the marketing of a season of films by the director John Baxter, whose work concentrated on working class life. His most famous film, *Love on the Dole*, kicked off the season last week.

DHL Couriers has signed up again as the sponsor of the London Film Festival, the NFT's main annual event. Its aid is valued at £30,000.

BMW has returned to arts sponsorship with a £100,000 backing for Bach. It is supporting ten concerts in August as part of a South Bank Summer Festival under the tag line *Towards Bach*: the concerts will be performed on original instruments.

★

A substantial £50,000 cheque from Sainsbury has saved the National Youth Theatre's visit to the Soviet Union in April. The project looked doomed, even though Prince Edward was accompanying his young company, but now the Russians can catch up with their first view of Eliot – *Murder in the Cathedral* is in the repertoire.

★

Nestlé is to invest £200,000 over the next three years in establishing the London Mozart Players as the house orchestra for its home town of Croydon, based on the Fairfield Halls. Apart from the concerts at the Halls.

Antony Thorncroft

Jerome Robbins' Broadway; Black and Blue

The Broadway musical is celebrating the past. Michael Coveney reports

Scratching around for a reply to the humiliating ascendency of the British musical theatre on Broadway, the New York showbiz community has backed Jerome Robbins to compile an anthology of his greatest staging and choreographic hits, which range from *On The Town* in 1944 to *Fiddler on the Roof* 20 years later, at which point Mr Robbins said farewell to the musical theatre and hello to ballet.

Events at the Imperial Theatre, probably the loveliest of Broadway houses and one of the best for musicals, in *Jerome Robbins' Broadway* are a nostalgic resumé of the days when musicals were what people like to think of as musicals. But this approach has the ironic and unfortunate side effect of underlining the kinetic homogeneity of such landmarks of the late 1950s as *West Side Story* and *Gypsy*.

No attempt is made to reinvent these shows or even to rethink the style of presentation. Topped and tailed with the three white-suited sailors discovering the New York cityscape as they go on the town, the intervening gobbets are laid out like glass-encased exhibits in a Hall of Fame.

Such a verdict may sound harsh when Mr Robbins has been asked to celebrate his achievement, not reassess it.

A syndicate of the city's most powerful producers has given him a cast of 62 singers and dancers, a band of 28 musicians under the expert direction of Paul Gemignani, 22 weeks of rehearsal, seven weeks of previews and a new top ticket price of $55.

Last Monday's New York Times ran the longest love letter ever written by Frank Rich, and the tourists have something to relish, one imagines, for the next few years. To the outsider all this looks and sounds like a conspiracy calculated to pretend that Broadway still counts.

Even the ecstatic Rich, however, cannot produce a coherent statement about Robbins' art. This is because that art served so many different styles.

The point about "Comedy Tonight," *the last minute opener to A Funny Thing* in 1962, is its quality of literary inversions, slapstick and introductory slam bang wallop. The item is meaninglessly placed half an hour in, sandwiched between a tantalising charleston from *Billion Dollar Baby* (1945) and a lovely soft shoe number, "I Still Get Jealous" by Jule Styne and Samy Cahn, from *High Button Shoes* (1947). Then after a portentous linking statement by the show's emcee, Jason Alexander, a suite of *West Side Story* dances made me realise how very much I had missed Officer Krupke.

At least here we see how Robbins is taking dance towards ballet, with his vigorous corporate rushings about, those heaven-seeking raised arm gestures, the wonderful use of dancers as phalanxes in diagonal flight through space, the resolution of the rumble between the Jets and Sharks in a deliquescent miasma of personal doom. Robert La Fosse and Alexia Hess, both on loan from New York City Ballet, are technically accomplished but without dramatic personality as Tony and Maria.

This fault is endemic to the proceedings. I was moderately impressed by Charlotte d'Amboise, a hardened *Carrie survivor, as a flying Peter Pan* and a spitfire Anita (the idea here is to remind you of Mary Martin and Chita Rivera), and by the athletic contortions of Jane Lanier in Irving Berlin's "Mr Monotony," a song that at last makes it on to Broadway having been dropped on the road from both *Miss Liberty* and *Call Me Madam* at the end of the 1940s.

Otherwise, the experience is like watching mechanics servicing an antique car in an abandoned garage. Particularly excruciating in this respect is the "Uncle Thomas" ballet from *The King and I* (1951) and the equally old-fashioned dream sequence from *Fiddler*.

The overall design by Robin Wagner pays full tribute – the only word in the circumstances – to Boris Aronson, Jo Mielziner, Oliver Smith and Tony Walton. The evocations are both colourful and evanescent, slickly executed and smoothly operated. But what sets out to overwhelm an audience with pleasure leaves them – oh, all right, me – nibbling disconsolately at canapés.

I would much preferred to have seen a full-scale revival of *High Button Shoes*, from which the frenetic seaside ballet, inspired by Mack Sennett and the Keystone Cops, is the unquestionable high spot. This is Robbins at his most high-spiritedly inventive, with pianissimo beach-hut hopping, a strobe light chase sequence in full glare, ingratiating bathing beauties, truncheon-wielding cops, a flying stolen jewel bag, and a lumbering ape. That must have been a Broadway producer trying to recoup his investment sooner than he deserves.

★

Celebrating the past may be the current preoccupation of the Broadway musical. But you can hardly complain of that when confronted with *Black and Blue* at the Minskoff Theatre, a dazzling compilation revue of blues, jazz and dance that recreates the Harlem theatres of the 1920s and 1930s.

The piece was originated in Paris three years ago by Claudio Segovia and Héctor Orezzoli, the team responsible for *Tango Argentino*. They have assiduously tracked down some of New York's leading jazz exponents and established a connection to the material of absolute authenticity while providing an occasion of immediate delight and sheer pleasure.

To sit in the middle of a predominantly black audience is to participate in the exhilarating reclamation of cultural rights. A lot of this material was in the first place served up for white middle class punters at the Cotton Club and such places. In one sense, they are still being served. The flitting ghosts of Ethel Waters, Josephine Baker, Bessie Smith, Florence Mills and Bill Robinson are given new substance and physicality through the good offices of their soulmates and successors.

One of the Nicholas Brothers, Fayard, is responsible for the choreography, along with Henry LeTang and Cholly Atkins. One of the stars is the veteran hoofer Bunny Briggs, whose insouciant tap mime to Ellington's "In a Sentimental Mood" is a highlight; Briggs used to be known as "Duke's Dancer."

Other Ellington delights include "Come Sunday" song by *the astonishing veteran* Linda Hopkins, and a superb version by the 12-piece onstage band, conducted by Leonard Oxley, of "Daybreak Express."

The company is led by Hopkins and two other great ladies, Ruth Brown and Carrie Smith. Brown stops the show early on with the sexually ambiguous chant of a chair saleslady, "If I Can't Sell It, I'll Keep Sittin' on It," while Smith's big moment comes asking "Am I Blue?" on a high-flying swing from which cascades her voluminous Big Top glittering ballgown.

The tremendous company dance numbers materialise out of the scenically exploited red plush curtains and a series of rotating cylindrical cubicles. These explosive routines make the mainstream Broadway derivations in the slide and shuffle style of Bob Fosse and Gower Champion and Jerome Robbins seem positively anodyne.

ARTS GUIDE

March 3-9

MUSIC

London

Royal Philharmonic Orchestra, conducted by Kazuhiro Koizumi, with Yuzuko Horigome (violin). (Tues) Barbican Hall (638 8891).
The Philharmonia, conducted by Anthony Inglis, with John Bingham (piano). (Wed) Barbican Hall (638 8891).

Paris

Orchestre Colonne, conducted by Philippe Entremont (piano), with Orchestre Colonne's choir conducted by Jean Sourisse. Mozart, Debussy, Beethoven. (Mon) Salle Pleyel (45630796).
Katia Ricciarelli recital, with Vincenzo Scalera (piano). (Mon)Theatre de l'Athenee (47426727).
Ensemble Orchestral de Paris conducted by Michel Swierczewski,Arto Noras (cello). Bacri, Chostakovitch, Roussel, Stravinsky (Tue) Salle Gaveau (45632030)
Quatuor Talich. Suk, Mozart, Dvorak (Wed) Salle Gaveau (45632030).
Nouvel Orchestre Philharmonique conducted by L. Hager. Haendel's Solomon. (Thur) St-Germain-des-Pres Church (42301516).
Ensemble Intercontinental conducted by Kent Nagano. Debussy,Ravel, Hindemith, Boulez, Wagner. (Thur) Musee d'Orsay,auditorium (45494814).

Vienna

Oslo Philharmonie, conducted by Maris Jansons. Solist, Andrej Gawrilow, (piano). Sibelius, Rachmaninow, Ravel. Musikverein. (Fri).
Wiener-Akademie with original instruments, Conducted by Martin Haselbock. Mozart, Haydn. Musikverein. (Mon).
Wiener Streichquartett. Haydn. Musikverein. (Tues).
Wiener Symphoniker, conducted by Yuri Ahronovitch. Mendelssohn, Skriabin. Musikverein. (Wed, Thurs).

Brussels

I Solisti Veneti Chamber Orchestra conducted by Claudio Scimone playing works of Vivaldi. Palais des Beaux-Arts (Tues) 512 5045.
Oratorio Orchestra and chorus conducted by Dominique Jonckheere with Santiago Juan (violin). Mozart. Cathedrale St Michel (Thurs) 511 9155.
Kiri Te Kanawa (soprano) accompanied by Roger Vignoles (piano). Mozart, Ravel, Strauss, Granados and Obradors. Palais des Beaux-Arts (Thurs) 512 5045.

Frankfurt

Hilliard Ensemble with David James, Roger Covey-Crump, John Potter with vocal music from the 15th and 16th century. Alte Oper (Mon).
Ivo Pogorelich piano recital. Brahms, Liszt and Chopin. Alte Oper (Wed).

Rome

Giuseppe Sinopoli conducting a concert performance of Wagner's 'The Valkyries' with William Pell (tenor), Hans Sotin and Kurt Rydl (basses) and sopranos Elizabeth Connell, Julia Conwell and Janis Martin. Auditorium in Via Della Conciliazione (Tues) (6541044).
Myung Whun Chung conducting Brahms and Tchaikovsky. (Wed) Teatro Olimpico (393304).

New York

Orpheus Chamber Orchestra with Alfred Brendel (piano). Mozart programme. Carnegie Hall (Mon) (247 7800).
Bavarian Symphony Orchestra of Munich conducted by Sir Colin Davis with Dmitry Sitkovetsky (violin). Prokofiev, Beethoven. Carnegie Hall (Tue) (247 7800).
New York Philharmonic conducted by Kurt Masur with Philip Myers (horn). Prokofiev, Strauss. Lincoln Center Avery Fisher Hall (Tue) (874 5770).
Andrew Rangell piano recital. Beethoven programme. Kaufmann Hall (Wed). (427 6000).
Jean-Pierre Rampal flute recital with John Steele Ritter (piano). Haydn, Beethoven, Mozart, Feld, Enesco, Bartok. Carnegie Hall (Wed) (247 7800).
Israel Philharmonic conducted by Zubin Mehta with Murray Perahia (piano) and Gila Bashari (contralto). Kopyman, Mozart, Brahms. Carnegie Hall (Thur) (247 7800).
New York Philharmonic conducted by Erich Leinsdorf with Cristina Ortiz (piano). Stravinsky, Stenhammar, Ravel. Lincoln Center Avery Fisher Hall (Thur) (874 5770).

Washington

National Symphony Orchestra conducted by Sir Neville Marriner with Elmar Oliveira (violin) and the Oratorio Society of Washington directed by Robert Shafer. Walton, Tippett. Kennedy Center Concert Hall (Tue) (254 3770).
National Symphony Orchestra conducted by Sir Neville Marriner. Mozart, R. Strauss, Bartok. Kennedy Center Concert Hall (Thur) (254 3770).

Chicago

Chicago Symphony Orchestra conducted by Christopher Keene. Haydn, Schreker, Cowell, Milhaud. Orchestra Hall (Tue) (435 6666).
Chicago Symphony Orchestra conducted by Christopher Keene with Natasha Gutman (cello). Korngold, Haydn, Reich, Honegger. Orchestra Hall (Thur) (435 6666).

Tokyo

The New Japan Philharmonic Orchestra, conducted by Koutaro Sato. Shura Cherkassky (piano). Strauss, Tchaikovsky. Suntory Hall (Mon) (289 9999)
Katia and Marielle Lebeque (piano duo). Dvorak, Poulenc, Milhaud. Suntory Hall (Tues) (289 9999)
English Baroque Soloists and Monteverdi Choir, conducted by John Eliot Gardiner. Handel: Israel in Egypt (Wed); Purcell, Bach (Thurs). Suntory Hall (505 1010)
Orchestre de Paris, conducted by Daniel Barenboim. Mozart, Tchaikovsky (Wed), Debussy (Thurs). Showa Women's University Hitomi Memorial Hall, near Sangenjaya. (725 8888)
NHK Symphony Orchestra, conducted by Hans Drewanz. Mahler 7th Symphony. NHK Hall (Thurs) (465 1780)

Randy Newman

DOMINION

For pure minimalism in music forget about Philip Glass and concentrate on Randy Newman. We are really stripped to basics here – a stage empty but for a piano; an insignificant looking fellow in a white shirt and dark suit shuffles on *and sits quietly on the stool.*

When he starts to sing he teases out a few simple words between much more significant silences. His playing switches from sparse uncertain notes to fluttering chords. All the time he comments on his performance: a wayward note and "thats fifteen years down the drain."

His hold over the audience is total; his performance is shocking; he is one of the funniest and saddest artists around, and much too big for pop. Only his throwaway casualness stops Randy Newman from conquering the world.

Some of the laughter is nervous. How should you react to songs like "Short people – got no reason to live"; or "Political Science", where he plausibly argues that the Americans should pulverise an ungrateful world. The range is universal, from a topical Albanian folk song which English supporters should avoid singing at all costs next Wednesday, to the most poignant of love songs.

He has no illusions. The last verse of "They just got married" sums up his philosophy of life " Anyway, she dies And he moves down to Los Angeles Meets a foolish young girl with *lots of money Now they're get*ting married." Randy Newman sings out, and sends up, the awful thoughts that we are ashamed even to let flicker through our brains.

He has popped over from California because he has a new album "Land of Dreams". It thankfully shows no musical development at all, being the same mixture of the political, as in "Roll with the punches", in which he tells the deprived blacks to shape up, to the sadness of love lost, as in "Bad News from Home".

Newman has the liberal conscience, which just makes a mess of your life, and the sense of humour which sees you through. As the notes hang plangent and uncertain in the air over lyrics which insult, and expose, tha world, and especially Newman himself, you are left in awe at his malevolent genius.

Antony Thorncroft

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Monday March 6 1989

Well-mannered watchdogs

POPULARITY is not something to which a financial supervisor could or should aspire. The real question for any market watchdog is whether complaints about the regulatory regime are running at a level that reflects the right balance between the twin extremes of laxity and excessive zeal. Two and a half years after Big Bang the clamour of discontent from vested interests about the new regulatory structure in London remains undiminished. After the initial burst of regulatory enthusiasm that followed the introduction of the Financial Services Act, revisionism is in the air.

Reduced transparency

Over the past month the International Stock Exchange has reduced the transparency of its dealing system in response to pressure from leading securities firms. The Government has decided to amend the Financial Services Act to give the Securities and Investments Board (SIB) more latitude in vetting the rules of self regulating organisations (SROs). The SIB itself has addressed criticisms from practitioners by continuing to refine and simplify its rule book. And now the Stock Exchange has decided to launch a radical review of new issue practice. Are the sails being too readily trimmed to the wind from the City?

Given the enormous upheavals that have taken place in the structure of the securities markets and the comprehensive nature of the regulatory reform undertaken by the Government, it would have been surprising if some of the complaints were not well founded. It would also have been unhealthy if the authorities had proved wholly inflexible in the face of justifiable criticism. The new system of self-regulation within a statutory framework was always intended to be practitioner based. A process of consultation and amendment is therefore in order.

The changes in the SIB's approach to establishing whether SROs' rule books offer equivalent investor protection to that of its own rules can certainly be justified on this score, even if there is some question over the necessity for legislative amendments to achieve the goal. This was one of several instances where the SIB's initial thrust was arguably over-bureaucratic. The subsequent push for greater flexibility is therefore welcome. So, too, is the attempt to establish a clearer distinction between professional markets and those in which small private investors operate.

The retreat from transparency in the Stock Exchange dealing system is a more difficult issue because it so clearly favours long-established firms with a big British clientele against new entrants with substantial capital. That said, some of the complaining new entrants have looked suspiciously like "fairweather" market makers; and their spoiling tactics in relation to their competitors' exposure on large transactions contributed to a reduction of liquidity in the market. In offering firms up to 24 hours of non-disclosure the Stock Exchange has probably been over-generous to the market's old guard and the chairman of the SIB, Mr David Walker, is surely right in calling for some tightening up in due course. But the Stock Exchange's case was far from being untenable.

Biggest challenge

The biggest challenge for the regulators, however, lies in the completion of the single European market. The fears that securities firms will take out a single passport to do business in the least regulated countries of the Community may be exaggerated; and it is hard to see a major investment house moving its operations from London to tha Continent purely on the basis of onerous conduct of business rules. Most have an interest in a well regulated market where the risk of default on the other side of any transaction is minimised.

The greater scope for regulatory arbitrage relates to capital adequacy. In the absence of a Community directive on capital for securities firms, London's role as a financial centre could certainly be at risk. Yet the Basle agreements on banking capital provide a hopeful pointer to what might be achieved with skilful diplomacy and determination. The case for optimism rests on the Community-wide interest in the avoidance of financial scandals and systemic shocks in the capital markets.

Force cuts in Europe

THE EAST-WEST negotiations on conventional armed forces reductions in Europe formally open in Vienna today in an atmosphere very different from that in which tha previous attempt to achieve a similar objectiva took place. The mutual and balanced force reductions talks (MBFR), which ended ignominiously at the beginning of last month after 15 years of inconclusive sparring, should have been brought to a close much earlier. They failed mainly because of tha hostile East-West political environment throughout most of their duration, which prevented both sides from making the necessary gestures and compromises without which no international agreement is possible.

If much more optimism is in order about the eventual outcome of the new CFE talks, it is precisely because the East-West climate has changed so radically over the past two or three years. Thanks in no small measure to the success of Mr Mikhail Gorbachev in forging a closer relationship with the US, arms control agreements have become much more attainable.

Political will

The December 1987 INF agreement between the US and the Soviet Union on the abolition of all land-based medium-range nuclear missiles has set something of a bench-mark. If a whole category of nuclear missiles can be abolished, why should it not be possible to agree on deep cuts in troops, tanks and other conventional arms? No doubt such an agreement will be much more complicated to verify because of the relatively small size, wide dispersal and mobility of the weapons involved. But even the most intricate technical problems can be solved if the political will is there, as the INF agreement has shown, and the indications on that score have been encouraging so far.

It matters little if the Soviet Union was motivated more by economic than military considerations when it agreed, together with its Eastern European partners, on a CFE negotiating "mandate" which reflects much more the concerns of Nato than the Warsaw Pact. The fact is that Moscow has accepted, at least in principle, the Western Alliance's primary demand: the elimination of the *disparities* between the forces of the two sides in order to attain the agreed objective of a stable balance of forces at lower levels in the area between the Atlantic and the Urals. Given the vast superiority of the Soviet Union and its allies in important categories of offensive conventional weapons such as tanks and artillery, that entails large asymmetrical cuts by the Warsaw Pact.

Practical measures

Agreements on principles have to be translated into practical measures, of course. The discrepancy between Nato's and the Warsaw Pact's estimates of the strength of their respective forces, disagreements about the definition of weapons and the different counting rules employed by the Western and Eastern alliances, mean that it will not be an easy task to agree on common ceilings and the size of the asymmetrical cuts to be made by the Warsaw Pact. But Mr Gorbachev's announcement last December of substantial unilateral Soviet reductions, while going only a little way to bridging the gap between the size of the two camps' forces, has given a much-needed early boost to the CFE talks and is a welcome indication that he intends to take them seriously.

The danger with all arms control negotiations of this kind is that they quickly lose their initial momentum and get bogged down in arguments about figures. While it would be ridiculous to suppose that the CFE talks could be conducted without a formal exchange of basic data on force strengths, it would also be a mistake to waste years trying to reach complete agreement on a common data base. The Nato approach of discussing common ceilings for the main categories of weapons from the very outset of the talks appears to be a good way of entering into the heart of the matter as quickly as possible. What has to be avoided at all costs is the MBFR syndrome. Fifteen years is too long to wait for an agreement so vital for Europe's security.

Clive Cookson begins a series on the challenge to industry of helping to preserve the environment

A last chance for the atmosphere

WHEN the greenhouse effect appeared on the international political agenda last summer, cynics forecast that it would disappear as soon as the autumn rains put an end to the US drought which first brought the threat of catastrophic global warming to public attention.

But this has not happened. After an exceptionally mild winter in most Western capitals, the issue continues to excite attention. Last year was the hottest since meteorologists began keeping reliable weather records in the 1850s. The average global temperature has risen by 0.5 deg C (0.9 deg F) over the last century.

All computer models of the Earth's climate predict a warming of several degrees over the next century, if industrial activities continue to change the composition of the atmosphere at the present rate. The biggest single agent of climatic change is carbon dioxide, generated by burning fossil fuels, which trap solar heat in the atmosphere like the glass roof of a greenhouse.

The likely consequences of global warming during the first half of the next century include severe disruption of world agriculture and inundation of low-lying parts of the globe, as the melting polar ice caps raise the level of the oceans.

Although scientists have known for decades that the greenhouse effect is a long-term threat to life on Earth, most climatologists are conscientiously resisting the temptation of saying that it is here already. They maintain that there is still no scientific proof that the warmth of the 1980s is an early sign of man-made climatic change, rather than a natural fluctuation.

The computer models show that we are likely to have to wait another 10 years before the greenhouse effect stands out unequivocally from the natural variations. "It will probably be around the year 2000 before we can not only say confidently that tha greenhouse effect exists but also measure its magnitude," says Professor Tom Wigley of the University of East Anglia's climatology unit.

But politicians are beginning to *realise that they cannot afford* to wait until "proof" arrives before planning measures to counter the greenhouse effect. So committees to investigate global warming are proliferating. On the international level, an Intergovernmental Panel on Climatic Change is leading tha way under United Nations sponsorship.

The trouble is that the most worthwhile countermeasure – significantly reducing the global use of fossil fuels – would have an enormous economic and social impact. It could not be achieved without unshakeable political *commitment at an international* level. And while wealthy industrialised countries might agree on a joint programme to cut emissions of carbon dioxide, developing nations will insist on a large increase in their fossil fuel consumption to help catch up with Western living standards.

The other global pollution issue which is exciting political interest is the destruction of the ozone layer in the upper atmosphere, which shields life on Earth from harmful solar radiation. However, the agents of destruction, chlorofluorocarbons (CFCs), are a small and self-contained problem compared with carbon dioxide and the other gases responsible for the greenhouse effect. As Mr Nicholas Ridley, the UK Environment Secretary, said recently, "with CFCs the science is clear, the solutions are at hand and the cost is not prohibitive; greenhouse gases are a massive, complex, costly and imperfectly understood problem."

The relationship between the ozone layer and the greenhouse effect confuses many people. Contrary to popular imagination, destruction of ozone in the upper atmosphere does not contribnte directly to global warming. Although a thinner ozone layer would let through more solar radiation and cause the Earth to warm up, it would *at the same time allow more heat* to radiate away from the Earth into space, and these two effects would more or less cancel each other out.

The main link between the two problems is that CFCs act as greenhouse gases as well as destroying the ozone layer. Indeed a single CFC molecule can trap 20,000 times more heat than a single carbon dioxide molecule. Mercifully for the world, these sinister CFCs are very thinly spread through the atmosphere compared with carbon dioxide and therefore have less effect on global warming.

According to current estimates, CFCs are responsible for about 20 per cent of global warming. Carbon dioxide produced by burning fossil fuels contributes 40 to 45 per cent and carbon dioxide released through deforestation adds a further 10 to 15 per cent. Other gases such as methane and nitrous oxide are responsible for the remaining 25 per cent.

An effective campaign to eliminate CFC emissions would therefore help to ameliorate the greenhouse effect. But concern for the ozone layer, not the greenhouse effect, is the main reason why the European Community and the US want to stop all CFC production by the end of the century.

A thinner ozone layer will let more ultraviolet radiation from the sun reach the Earth. The long-term environmental consequences of this are still unclear, although they are bound to be unpleasant. The most immediate effect on human health will be an increase in skin cancer – according to the US Environmental Protection Agency, a one per cent loss of ozone in the upper atmosphere is likely to cause three to five per cent more skin cancer world-wide.

There is already clear evidence that man-made CFCs are beginning to destroy the ozone layer. For a *few weeks every spring about half* the ozone layer over the Antarctic disappears, as a result of complex photochemical reactions catalysed by CFCs. Although this notorious "ozone hole" is the result of seasonal polar weather conditions, it is an example of what could happen globally if more and more CFCs build up in the atmosphere. Evidence gathered over the last two months by an international scientific team shows that the Arctic atmosphere is also "primed for ozone destruction."

The largest CFC manufacturers, Du Pont and ICI, say that CFC production could be cut by 85 per cent over the next 10 years without a catastrophic impact on industry. Some users, such as aerosol manufacturers, are substituting other chemicals for CFCs.

For others – manufacturers of electronic components, insulating materials and refrigerators – the transition to "ozone friendly" materials will be much more difficult but not impossible. (CFCs will presumably continue to be available for a few applications – in medicine, for example – where there are no acceptable substitutes.)

As with carbon dioxide, however, developing countries may insist on increasing their CFC consumption while the industrialised world cuts back. If every Chinese family acquires a refrigerator with CFC coolant over tha next two decades, the adverse effect on the ozone layer and global warming will outweigh any positive contributions the UK might make.

Even so, there can be little doubt that global emissions of CFCs will be reduced over the next decade by at least the 50 per cent called for by the Montreal Protocol of September 1987.

In the case of carbon dioxide, on the other hand, it is going to be extremely difficult to achieve any reduction at all in emissions over the next two decades. Recent trends in fossil fuel consumption suggest that the world will be producing at least 50 per cent more carbon dioxide than today in 20 years' time, unless there are drastic changes in energy policy. The four main policy options are:

● **Energy conservation.** Developed countries use energy 25 per cent more efficiently today than they did before the oil price shock of 1973. But the conservation drive has petered out since the mid 1980s – and the US used energy less efficiently in 1988 than in 1987.

Although there is some scope for making power stations convert primary fuels to electricity more efficiently, end users can contribute much more to energy conservation. The auto industry has a particularly important role to play through the development of more efficient (and cleaner) engines.

The challenge is to encourage conservation during a period of plentiful energy supplies and relatively low prices. Recent experience of government exhortations to save energy is not encouraging. More aggressive ways of encouraging efficient use of energy would be: to raise prices through taxation; to give tax incentives for energy conservation measures; and to introduce mandatory conservation targets and fine companies that failed to meet them.

● **More nuclear energy.** Because nuclear reactors produce no carbon dioxide or other greenhouse gases, the nuclear industry hopes that the threat of global warming will help to restore its fortunes, which have been hit by public concern about the disposal of radioactive waste and fears of a catastrophic accident.

But many environmentalists remain passionately anti-nuclear. Campaigning groups such as Friends of the Earth and Greenpeace claim that the problems of an expanding nuclear industry would outweigh any reduction in the greenhouse effect. And they like to quote a recent study, by the Rocky Mountain Institute in the US, showing that one dollar spent on energy conservation is seven times more effectiva in reducing carbon dioxide emissions than one dollar spent on nuclear power.

● **More use of renewable energy sources.** Everyone agrees that we should extract more useful energy from sunshine, wind, waves and tides and from the geothermal heat stored within the earth. Environmentalists repeatedly urge governments to spend much more money developing these non-polluting sources.

But there is no chance of building up renewable energy sources quickly enough to replace more than a small fraction of world-wide fossil fuel consumption within the next two decades. Beyond then, there is a real possibility that solar energy will make a substantial contribution.

● **Switching from coal to oil and natural gas.** Coal consists largely of carbon, and carbon dioxide is its only combustion product. Oil and gas are hydrocarbons and give off both water and carbon dioxide when they burn. As a result, coal emits about twice as much carbon dioxide per therm of energy as gas, and 50 per cent more than oil.

Since the world's reserves of natural gas seem to be much larger than geologists realised a few years ago, it seems likely that gas will increasingly replace coal as a fuel for conventional power stations. (An added bonus is that gas contains fewer of the sulphur and nitrogen impurities which cause *acid rain* when coal is burned.)

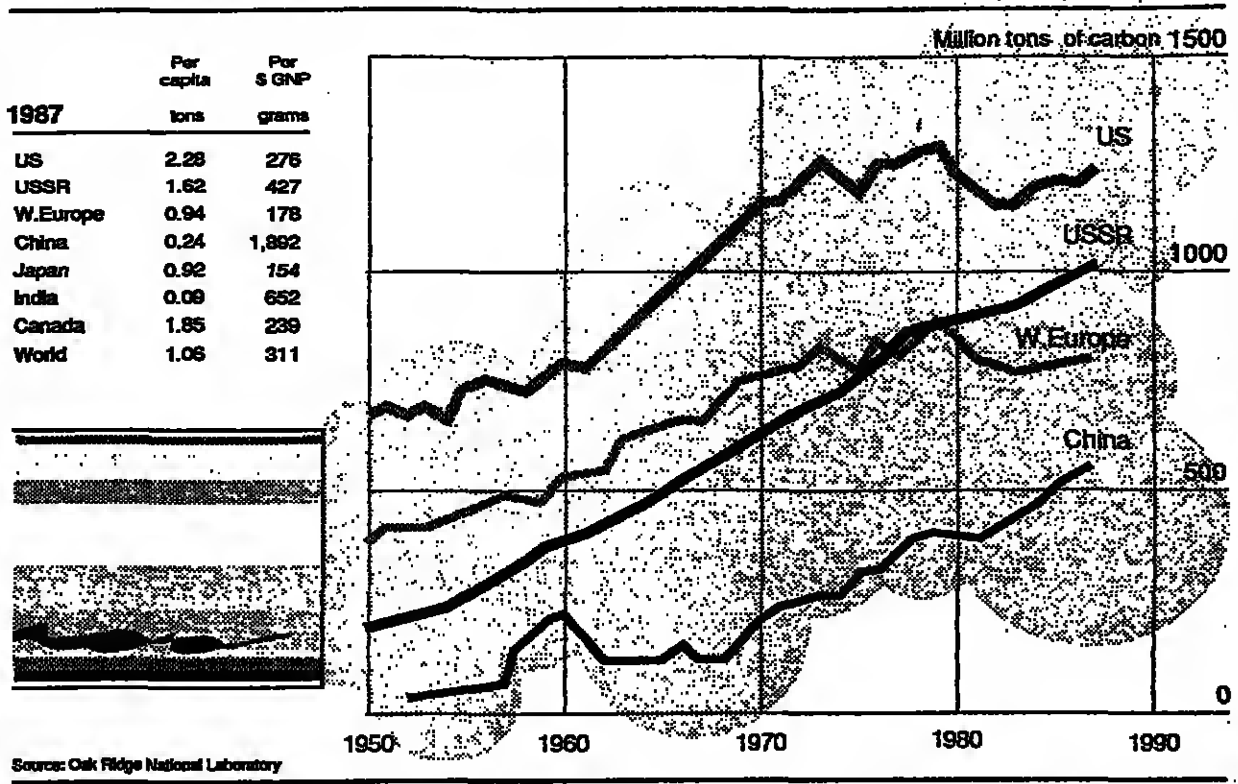
A realistic policy to counter the greenhouse effect must seek to reduce carbon dioxide emissions through a combination of these four energy options; the problem of global warming cannot be solved through a technical fix. For example, there is no practical way of removing carbon dioxide from power station emissions, in the way that sulphur pollutants can be removed with a expensive "scrubber", because carbon dioxide is one of the main combustion products and not just an impurity.

Among the science fantasy suggestions for cooling the greenhouse, one is to fill the oceans with micro-organisms genetically engineered to consume carbon dioxide very rapidly. For the foreseeable future, however, the only possible course of action will to reduce fossil fuel consumption. Or do nothing and hope that our grandchildren will enjoy living on an Earth that will be warmer than it has been for millions of years.

The series will continue on the Technology Page later this week.

Carbon emissions from fossil fuels

1987	Per capita tons	Per $ GNP grams
US	2.28	276
USSR	1.62	427
W.Europe	0.94	178
China	0.24	1,892
Japan	0.92	154
India	0.09	652
Canada	1.85	239
World	1.06	311



Source: Oak Ridge National Laboratory

OBSERVER

Young Dane at Hambros

■ Peter Christophersen, chief executive of Denmark's Baltica Holding, has an engagingly boyish grin and a gleam in his eye as he talks about Hambros Bank, in which Baltica has just acquired a 9 per cent shareholding.

Although still only 42, Christophersen has master-minded the conversion of Denmark's largest insurance company into a broadly based financial services group, and more: last year Baltica acquired Falck, an ambulance, fire and vehicle rescue group.

"Security" is what it is all about, he says – providing insurance, estate agency service for home buyers, pension schemes and portfolio management. Since the accidents against which Baltica provides insurance so often lead to hospitals, the ambulance service fits in too.

Sir Charles Hambro was travelling in the Far East last week, which meant that Baltica was still pretty much in the dark as to how its bid to become the group's largest shareholder will be received. But Hambros has a long-standing relationship with the Scandinavian countries, and not only a business relationship.

Joseph Hambro, the father of Carl Hambro, who founded the bank about 150 years ago, spent many years in Copenhagen. It was therefore natural that some of Carl Hambro's earliest business contacts were with Denmark. There is, however, no trace of the Hambro family in Denmark any longer (at least, there are no Hambros in the phone book), although there is a branch in Norway, where the local Hambros have from time to time played a prominent role in the country's political life.

Should Hambros, unexpectedly, give Baltica a cold shoulder, Christophersen can be counted on to stay cool in adversity. He showed his metal a few years ago when he was held at gun point for several hours by a mentally-disturbed Norwegian student. The most lasting trace of that episode, Christophersen says now, was that the larger Danish companies finally realised how important it was to install satisfactory security systems.

Poor middle

■ As the international ozone conference continues in London, perhaps we could agree to drop the pervasive term "North-South gap". The southern countries of the world are potentially very rich: Chile, Argentina, most of Southern Africa, and Australia. The fact that they do not do as well as they might arises from politics, not lack of resources. When people talk about the "poor South", what they mean is the poor middle – the countries around the equator.

Young appeal

■ Vikki Harris is a 14-year-old cancer patient at London's St Bartholomew's Hospital. She has launched a fund to buy a £35,000 laser machine which would help other cancer patients at Barts. She herself has already undergone all the available forms of treatment, and is still fighting. So far she has raised £12,000. It would be a great pity if she were to fail to reach the target because, as a 14-year-old, she does not know too much about how to activate the City around her. Barts is, after all, a City hospital.

Tower drama

■ The Tower affair may be damaging almost everyone it touches in Washington with its flood of salaciousness and hypocrisy, but it is producing side-benefits for some. The personal failings of John Tower have even pushed out Vice-President Dan Quayle as the number one target of comedians on late night television shows and in comedy bars.

Moreover, there is a renewed interest in Otto Preminger's 1962 movie "Advise and Consent" based on the Allen Drury novel about the Senate struggle over the nomination of a Secretary of State (Henry Fonda) fought by an irascible old Senator from South Carolina (Charles Laughton). The colourised version of the original black and white film is being widely sold, and hirings at video shops around Capitol Hill have shot up over the past two weeks.

The Senate debate over the Tower nomination, entering its third day today, has yet to offer a Laughton performance, though any remaining doubters in the Palace of Westminster about televising the Commons should obtain videos of the C-Span cable television coverage of the debate, which has become compulsive viewing round Washington.

"Of course, in my day it was all ozone round here"

Ridley's past

■ Hard to believe that Margaret Thatcher made a deliberate attack on Nicholas Ridley, the Environment Secretary, at the weekend for the failure to convince the public of the merits of water privatisation. But it was an uncharacteristic lapse and must indicate that the Government is rattled.

Ridley himself remains an oddly unknown figure to the wider public. In fact, he was one of the Tory rebels on economic and industrial policy after the Heath U-turn in 1972. Ridley had been a junior minister at the Department of Trade and Industry and opposed the industrial subsidies that Heath began to introduce. On the back benches he was frequently aligned with such free-marketeers as Enoch Powell, John Biffen and the now Lord Bruce-Gardyne. As such, he was one of the pre-Thatcherites.

It still took him a while to work his way back up when the Tories returned to power in 1979. But again it is hard to think of Thatcher dumping him now. The job he has always hankered after is the top of the DTI, even if more recently there has been talk of his succeeding Chancellor Lawson.

Louts all over

■ In a City car park, full of Porsches, someone has written: "You're all a bunch of larger louts." Underneath, in different writing, appears the line: "What about our smaller louts?"

Haig Simonian unravels West Germany's most spectacular corporate scandal

A tangled web of money

Jeffrey Archer, Paul Erdman and Arthur Hailey could not have done it better. The story of Co op – one of West Germany's biggest food retailers, roughly the size of Britain's Tesco, with sales of around DM 12.5bn (£3.9bn) last year – has already beggared even their collective talents.

The Co op saga has so far included the sacking of a board of directors; co-ordinated police raids on its offices and their homes; a suicide attempt by one of its supervisory board members; mysterious entities in the Cayman Islands, Panama and Liechtenstein; and a decisive and embarrassing role for a leading Swiss bank. More is to come.

Last Thursday, the company's shares dropped by almost a third to DM 210 when trading resumed after a suspension. But the story really started in October 1988 when reports first emerged in Der Spiegel, the German newsmagazine, that the group was actually underpinned by a mountain of debt.

Two non-consolidated subsidiaries, Garvey Holding, which is based in Switzerland and is responsible for all Co op's foreign activities, and Handels-Investitions Gmbh (HIG), which handles its domestic property portfolio, stood out. Not only Co op, but these two companies as well, had borrowed heavily. However, Co op's own accounts had said nothing about the borrowing at either.

Mr Bernd Otto, Co op's chief executive until late last year, assembled the group in the early 1980s by merging around 100 local co-operative retailers. On the face of it, big regional co-operative organisations, such as Stuttgart's BdK and Berlin's VSV, were the dominant shareholders. Once the story started to unravel, however, there were signs that Co op's old shareholders from the co-operative movement actually belonged to the group itself.

The Spiegel reports precipitated a cash crisis at Co op, leading in turn to a much closer role by six banks which had either lent particularly heavily to it or had traditionally close relations with it.

Four of the six bank "pool" were foreign. They included Schweizerische Bankverein (Deutschland), the German subsidiary of Swiss Bank Corporation (SBC), which had led the flotation of some 7 per cent of Co op's shares in October 1987 in what then seemed a breakthrough for a foreign bank in Germany. That success has now turned sour.

The other foreign banks were Amro, of the Netherlands, Security Pacific, of the US, and Sweden's Svenska Handelsbanken. The four banks converted some of their Co op debt into equity, ending up with over 70 per cent of its shares. Two domestic institutions, Bank für Gemeinwirtschaft (BfG) and Deutsche Genossenschaftsbank (DG Bank), completed the "pool", although they took no equity stake in Co op.

In December, Co op summarily dismissed Mr Otto, its chief executive, and Mr Werner Caspar and Mr Dieter Hoffmann, its two other directors. Soon after, Mr Hans Friderichs, a former German economics minister and former chief executive of Dresdner Bank, who had played an important role in rescuing the AEG electronics company in the late 1970s, was appointed supervisory board chairman to sort out the mess.

Since then, the saga has moved on. An accountants' report commissioned by Co op's new owners and delivered in February revealed that, under its previous management, Co op had been systematically falsifying its accounts since 1982.

Trading losses had been covered by a variety of window-dressing techniques, notably by taking extraordinary profits from the sale of its shop leases to HIG at inflated prices and overvaluing its stock. The sale of leases alone had added some DM 200m-300m to the group's earnings, disclosed Mr Friderichs last week.

But if the profit and loss account has shown some surprises, it is the balance sheet which has contained the bombshell. The accountants report revealed that Co op was an elaborate maze, in which money was borrowed through a variety of subsidiaries and reshuffled through the system to form equity capital in Co op *itself*.

The accountants have so far discovered about 300 subsidiaries, with more potentially to be unearthed. Co op itself, Garvey Holding and HIG each had some 100 subsidiaries.

Garvey was owned by a shadowy Cayman Islands based company, Burlington Ltd, which also indirectly had the controlling interest in HIG. Quite who stood behind Burlington, and the Panama-based company, Holborn Overseas Ltd, which owned it before the banks managed to regain control at the end of January, is one of the principal mysteries. Another is the names of those behind Co op Bank. This is the institution which – the new management now believes – has ultimate control over the group if the string of complex links and purchase options between its various components are unravelled.

All this is already providing rich material for the state prosecutors now looking into the matter. But for the time being, the "new" Co op under Mr Friderichs has been more concerned with keeping itself afloat than looking for culprits.

"We have to win a future for the company on the basis of what we have found," said Mr Wolfgang Bernhardt, a consultant advising the group, last week. "It's not our job to ask who did what or why."

The accountants' report showed that the company's balance sheet was overloaded with debt to the tune of DM 1.95bn. Under German company law, that sum had to be restructured on the balance sheet or else the group would have had to declare itself bankrupt last week.

On Sunday, February 26, the creditor banks agreed in principle to a set of write-offs which have given the group a breathing space. Some 60 per cent of the DM 1.95bn comes from the banks themselves, which will write off much of their unsecured loans to the group.

While the banks' agreement has saved Co op from bankruptcy, longer-term financing for its future has yet to be found. Co op stands to make a loss of DM 120m-125m in 1988. Recovery will take time, according to Mr Hans Schaefer, a consultant for the group, who has forecast an operating profit of DM 115m-160m in three years' time if the right measures are taken now.

Rationalisation and much tighter cost control top his list. Co op has the advantage of having more big stores than many of its competitors, but the group has been weighed down by a large number of small and unprofitable units. However, in the ruthless food retailing business, where margins are wafer thin, none of its stores, big or small, have been selling as much per square metre as their more efficient competitors.

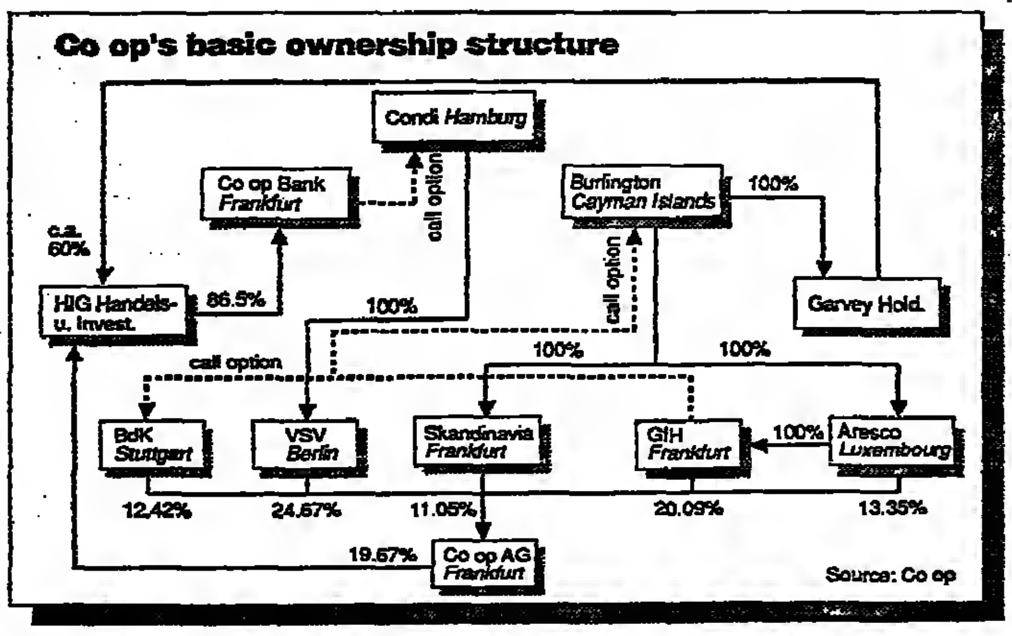
Rationalising the 2,200-store network, with 300-350 closures and as many as 2,500 job losses is the first priority. Sales levels at all Co op's units need to be raised by between 25 and 30 per cent, said Mr Schaefer. Stocking policy will also have to be revised; at present many of Co op's shelves groan under the weight of slow-moving items.

Will Co op's 140-odd creditor banks be willing to wait the three years at least that Mr Schaefer says are necessary for a recovery? They may have no choice. The debt rescheduling deal hammered out also includes a moratorium on all other debt and interest payments until the end of next year.

Speaking to a packed audience in the canteen of the group's Frankfurt headquarters last week, Mr Friderichs underlined how the group's disproportionately high number of attractively-sized larger stores compared with most competitors could make it an attractive takeover candidate. There are legal barriers to opening new superstores in Germany, and few potential takeover candidates for any foreign retailer trying to break into the domestic market ahead of 1992.

Co op's four bank shareholders have consistently said they do not want to be long-term investors in the group. Last week, Mr Friderichs strongly denied that Co op was being tidied up in preparation for a sale. Though the process could be a long drawn out one, that seems none the less the most likely outcome.

Co op's basic ownership structure



LOMBARD

Time to tighten monetary policy

By Samuel Brittan

WHY WAS I sorry that the January trade figures were not bad enough to shock the Government into increasing British base rates?

The reason is that inflationary forces are stronger than supposed. The inflationary blips, of which the Chancellor has spoken, are a successive series of upward deviations from what the Treasury expected to happen.

Last year the Treasury argued that one had to look at the rise in sterling as well as interest rates in determining the stance of policy. Fair enough. But this year sterling has weakened, while interest rates have remained stable. This must mean, therefore, a weakening of counter-inflationary policy. So far the weakening may not amount to much. But as policy was barely tight enough in the first place, the move has been entirely in the wrong direction.

The weak knees of backbench Conservative MPs, as soon as they suffer from mid-term unpopularity, are predictable. What is more difficult to take is that the political pressures may have been reinforced rather than weakened by economic advice which pays far too much attention to a very recent slowdown in a measure known as M0 – which quite amazingly is the one monetary target left in the Budget Red Book – although it consists mainly of notes and coins in our pockets.

Contrary to its supporters' beliefs, so far from warning that policy was too loose a year ago, M0 gave quite the wrong signals well into 1988. Some people who still think of policy tightening almost exclusively in terms of discretionary increases in taxes might be surprised that I am against a masochistic Budget. It is possible to believe: (a) that policy is too loose; and (b) that increasing the tax burden is the wrong way to tighten up.

The table shows that for three years running, the official forecasters have consistently underestimated the rate of growth of the British economy. Growth in three years since the first half of 1986 has been at around 5 per cent per annum or about twice Treasury expectations.

A growth performance better than forecast is only a disaster to a forecasting fetishist or to someone who thinks he knows the safe rate of economic growth.

But unfortunately the Treasury has not only underpredicted real growth. It has also underpredicted inflation in two out of the last three years; and the errors of underprediction have comfortably exceeded the error when inflation did better than expected.

The inflationary excess has moreover been understated by the table, which makes no allowance for the syphoning off of excess demand into rising imports.

So, to check the error over a longer period, I looked back to the early 1980s with the aid of some helpful tables in Bill Martin's Memorandum in the Treasury Committee report on the Autumn Statement (HMSO, December 14, 1988). In the whole period from 1982 real growth has been usually underpredicted, once or twice been guessed correctly and hardly ever overpredicted. The errors were, however, not so great in the early years. The inflation record is more mixed.

Real GDP increase %

	Budget forecast	Actual*
1st half 1986 to 1st half 1987	2.4	4.0
1st half 1987 to 1st half 1988	2.6	5.4
1st half 1988 to 1st half 1989	2.6	4.7 †

GDP Deflator

Increase on previous financial year %

	Budget forecast	Actual
1986-1987	3¾	3
1987-1988	4½	5¼
1988-1989	4½	6¼ ‡

Notes: * Output measure
† Goldman Sachs estimate
‡ Autumn Statement estimate

Taking both output and inflation together, it is clear that the growth of total spending, measured by nominal gross domestic product or in any other way, has been consistently underpredicted. Earlier on, the errors were benign, as the cumulative overshoot was in real output, but not so benign in the later part when there has been a larger error with a major inflationary component.

Faithful readers will know that I do not lose too much sleep over forecast errors. I have been using them in the hope of drawing their attention to my real nightmare. This is that the *level*, and not just the rate of change, of demand is too high. In terms of the real economy, this means that the level of capacity operation could be well above that consistent with low and stable inflation, and unemployment below that level.

We would all like an economy which could operate at a lower level of unemployment without accelerating inflation and there have been some improvements in the operation of labour markets. But it takes the eye of faith to suppose that the drop of unemployment by well over a third in two years and the numerous signs of desperate labour shortage have not taken the economy into the region of old-fashioned excess demand.

If this is so, we will need either many quarters of quite low growth or a short, sharp recessionary slowdown before we can go back on trend.

On the internal side, there is a risk that mortgage credit will start rising very quickly again, just as soon as the pressure of high interest rates wears off. The only sustainable basis I can see for lower credit demand in the future would be a downward change of gear in the growth of pay. This could only come about through a genuine demand squeeze in the non-traded part of the economy or through a profit and exchange rate squeeze in the traded sector.

Supply side improvements could nullify these dangers. I am not asking the Government to estimate the points of capacity utilisation or unemployment at which inflation takes off. I simply want it to stick to its much-celebrated nominal framework.

Last year the Chancellor said that sterling had been allowed to rise because inflationary forces were stronger than he had realised. Nothing has happened so far to justify a reduction of interest differentials between sterling and other currencies.

LETTERS

'The private car is a menace'

From Mr David C. Hawkins.

Sir, Overcapacity in the automotive industry is far, far worse than the naive arithmetic of factory-gate supply and demand might suggest.

The average family saloon, often doubling as a company car, offers about 100 seat-hours capacity per day (four seats for 24 hours). Cars average about two seat-hours of use each day (if overflowing parking lots and passengerless cars in traffic jams are any guide).

Utilisation at 2 per cent is bad, but the figure is reduced even further when traffic, in congested urban areas, averages only 10mph in 40mph zones. Journey times are then almost four times longer than necessary – which brings effective seat-hour utilisation down to 0.5 per cent.

With so much heat exhausted at high temperatures, the petrol engine is thermodynamically inefficient. Tossing in pollutants for good measure, we can say of the motor car that never in the history of man has so much energy been consumed at such high cost for so little value.

The private car is a menace to the environment and a waste of money. Fleet owners should operate cars with a card-user system and cellular radio communications. Card members could drive any fleet car anywhere, any time, with cars' location and status indicators automatically sent to a control centre for accounts to be debited and for any necessary maintenance or servicing to be supplied to the car.

Utilisation would improve, energy consumption would fall, and company and private assets would be released for productive investment.

The free market will not deliver this Utopia, but has helped to imprison the world in a polluted cage to which we all sleep. Perhaps these musings of an engineer will awaken a Hertz or an Avis to an opportunity to make some money and help save us from the greenhouse effect, or worse?

David C. Hawkins,
30 St George's Road,
Twickenham, Middlesex.

Volatility in Hong Kong

From Mr Thomas W Brown.

Sir, John Elliott's article "Learning to live with big brother" (February 17) is outstanding among your recent reports on the publication of the second draft of the Basic Law, and of other issues concerning Hong Kong's future. In it he quotes an official who characterises Hong Kongers as conditioned to extreme volatility by their lives and surroundings.

This is given as a reason why the British government is fearful of unleashing, in any meaningful way, the unpredictable force of democracy in its colony. Yet the very lack of any representative democracy in Hong Kong has contributed substantially to such volatility and nervous sensitivity.

Hong Kongers – highly literate, skilled, self-disciplined and motivated – are obliged to live lives devoid of the dimension of political experience which is regarded elsewhere as integral to an advanced, liberal society. They are able to exercise a wide range of economic choices, but still (after 150 years of British rule), almost no political ones.

With no outlet for the energies which, elsewhere, allow people directly to influence their own fates through the democratic process, the meaning of life is more easily reduced to making money (often with the aim of emigration to a less one-dimensional society).

Emotions are likely to become more volatile, tempers more easily frayed, as 1997 and the prospect of an administration appointed by a repressive communist regime approaches, with no assurance of an escape ticket if things do not turn out as rosily as London and Peking forecast.

What a sad contrast with conditions on the other side of the Pearl River, where anxiety at Macau's future is allayed by its citizens' full Portuguese nationality.

Thomas W Brown,
45 Barkston Gardens, SW5

Agriculture adjusts to realism

From The President of the Country Landowners Association.

Sir, Berkeley Hill (Letters, February 24), commenting on David Richardson's article on farmers' incomes, makes a good point; though in passing he accuses us farmers of being accustomed to receiving substantial amounts of support to maintain our living standards.

John MacGregor, in his speech at the Oxford Farming Conference, and again at the National Farmers' Union AGM, was making the point that farmers already get some of their income from non-farming activities. The general assumption has been that the Agriculture Minister was referring to investment income, but he was not. Farmers and landowners, as good entrepreneurs, have been using their land assets as the basis for many entrepreneurial activities over the years in addition to their main business of farming.

The farming industry is facing a crisis because it can produce more food than consumers can eat. Rather than making profit on this surplus food, farmers are going to have to learn to make an extra income from yet other activities on their farms.

Whether or not he knew it, however, Mr MacGregor was actually saying that agriculture has ceased to provide a living for a large proportion of those engaged in it – a fact not altered by the ability of some of them to make money from other sources.

This would be regarded as the death-knell of any other sector of the economy. Some may say the Government would not mind, but I cannot believe this is the case. Change there must be in agriculture, but surely it is for the Government to see that farmers are paid realistic prices for the food that is required, and that obstacles are removed which hinder their movement into other business activities, whether these be tax or planning or highway restrictions.

Gordon Lee-Steere,
Country Landowners Association,
16 Belgrave Square, SW1

R&D in the drugs industry

From Professor Cedric Hassall.

Sir, "Putting the heart into R & D effort" (February 16) deals with the development, by Hoffmann La Roche, of Cilazapril, an important new drug for high blood pressure, and suggests that the development is "in record time."

Surprisingly, the six years mentioned for the development takes no account of the time required for the discovery research described in the published patent of 1982. As the senior inventor named in the discovery patents, and director of research in Roche UK, 1971-84, I must point out that the design of Cilazapril relies on an essential constituent fragment, piperazic acid, a new amino acid first reported by my research team at Swansea University College in 1970. Even omitting time for this discovery, the combined period for discovery and development of Cilazapril is unexceptional.

It can be compared to less than 10 years for the important related drugs, captopril (Squibb, reported 1977) and enalapril (MS&D, reported 1980). It is understandable that Dr Clough (Roche, UK) and Dr Drews (Roche, Basel), who provided information for the article, were unfamiliar with this time-scale. Neither worked for Roche until 1985; by then the Cilazapril discovery was complete; development was well under way.

"Sprawling R & D effort which has not enjoyed great success" – is a comment attributed to unnamed Roche scientists. I disagree emphatically. It was greatly facilitated by the style of Roche management, internationally, before 1985.

Cedric Hassall,
2 Chestnut Close,
Westoning, Bedfordshire

FINANCIAL TIMES
Monday March 6 1989

Janet Bush on Wall Street

Of GI Joe, Star Wars and OTC

MR CHARLES Smithson, vice president in the risk management division of Continental Bank, offers this parable about the dangers of specialisation in financial products:

"I have two young sons and they were obsessed with their Star Wars toys. You had to know all the different characters to play. It was very complicated but, trying to be a good father, I learned all about Star Wars.

"The trouble was, by the time I had got the hang of it, they had moved on to GI Joes and Transformers."

Continental Bank may have dropped the Illinois from its name after its chronic oil loan portfolio nearly put it out of business to 1984, but its leanings are pure Chicago.

Since those dark days, the bank has shed its retail business and boasts a healthy, significantly leaner loan portfolio and far less traditional bank lending activity.

Today it lists three priorities – corporate finance deals including arranging leveraged buy-outs and setting up employee stock ownership plans; clearing and settlement services; and risk management using derivative products.

Mr S. Waite Rawls III, vice chairman of Continental, believes the bank is unique in this area because it offers both derivatives traded on futures and options exchanges (Star Wars) and over-the-counter products such as currency swaps (GI Joes).

Financial institutions tend to offer one or the other; the large commercial banks tending to specialise in over-the-counter products and boutique companies like Refco using risk management techniques based almost exclusively on exchange traded contracts.

Mr Waite believes Continental, based in the world's futures and options trading capital of Chicago, is the only company fully to have integrated the two.

Both products have different strengths and weaknesses and being able to work with both gives their customers maximum flexibility in managing the risks, for example, of movements in currencies, interest rates or commodity prices.

Over-the-counter products can be tailored to a client's needs but lack liquidity. Exchange traded products are more liquid, but daily margins have to be posted to trade them.

There are two aspects of Continental's approach to risk management. One is a desire to erode an inhibiting fear among many corporate clients about derivative products. Surveys suggest only 25 per cent of international companies use even one such product – usually futures to hedge foreign currency risk.

Education is part of reassurance efforts and Continental sponsors the Journal of Applied Corporate Finance, sent mostly to corporate customers and containing articles highlighting different financial and risk management techniques and different derivative products.

Continental wants to demystify derivative products and accentuate their practical use to companies.

The second feature is that Continental's risk management services are dictated directly by customer needs. It specialises in custom-building risk management strategies comprising different products.

One example involves L.L. Bean, the outdoor-clothing stores group, which has highly seasonal cash flow and needs to borrow funds only for perhaps six months in the year. It wanted to stabilise borrowing costs and Continental arranged a "seasonal cap" which allowed the company to pay for interest rate insurance for only the months when it needed to borrow.

Another was a unique set of product building blocks, collectively known as a Floating Rate Enhanced Debt Security, or Freds. Some Middle Eastern investors had expressed interest in buying a diversified batch of LBO loans but wanted to avoid paying withholding tax in the US.

Accordingly, Continental packaged about 25 loans, securitised them (transformed the loans into securities) and issued them in the Netherlands to December.

Such skills have taken the bank a long way from the crisis of 1984 when the Government was forced to bail it out after a run on deposits.

Focus has been the watchword for Continental, according to Mr Rawls. The drive of many banks towards business diversification, he says, simply means dilution.

Recruit takes its toll on Takeshita

Ian Rodger reports on the fading popularity of Japan's premier

ACCORDING to the old saying, there is no such thing as a vacuum in politics.

Perhaps the instincts expressed by that saying were behind the sudden surge of speculation in Japan last week that Mr Noboru Takeshita was finished as prime minister and would soon have to resign and be replaced by someone untouched by the Recruit political funding scandal.

According to this view, which was being advanced by politicians, businessmen and pundits alike, Mr Takeshita is now so unpopular that the ruling Liberal Democratic Party might lose its majority in the upper house of the Diet (parliament) in partial elections due in July.

Thus, he and his Cabinet would have to go, even if the only potential replacement were an ailing elder statesman who would last only a few months. Some even suggest that the Government should call a general election this summer in the hope that its losses would be more modest than they would be in the partial upper house elections.

"It is really getting serious. Mr Takeshita's time remaining as prime minister may be only one or two months," Mr Takashi Inoguchi, an assistant professor at the Institute for Oriental Culture at the University of Tokyo, said on Friday.

Meanwhile, a Bank of Japan official let it be known last week that he was worried about the effect the current political crisis might have on the yen.

Tension has been building within the LDP for several months because of the approach of the upper house elections and the collapse of the Takeshita administration's popularity. Half the 252 seats in the House of Councillors must be contested every three years. The LDP has 143 seats and is expected to lose between 10 and 20 in the July elections.

In December, the Takeshita Cabinet's popularity dipped below 20 per cent, a level from which it has proved difficult to the past for prime ministers to recover. A poll last week confirmed that the cabinet's rating has remained at about 20 per cent.


Takeshita: under growing pressure from the Recruit affair

The reasons for this unpopularity are well understood. The liberalisation of some farm markets last year has upset rural voters and the impending introduction of a value added tax in April has annoyed just about everybody. On top of those concerns, people are disgusted with the long-running Recruit political funding scandal. It has already caused the resignations of three Cabinet ministers, and resulted in the arrest of nine people.

This general discontent has been brought into sharp focus by three events:

● Three weeks ago, the LDP suffered a crushing defeat in a by-election in Fukuoka, indicating the strength of feeling on these issues. One LDP politician close to the scene returned to Tokyo telling anyone who would listen that Recruit was the main factor and that Mr Takeshita would have to go.

● Two weeks ago, Mr Kazuo Aichi, a rising LDP star, withdrew from the election for governor in Miyagi Prefecture. He said he feared that his acceptance of political contributions from Recruit might cause him to lose, and that it would be less damaging for the party to withdraw than to lose.

● Last Monday, Mr Yasuhiro Nakasone, the former prime minister, tried in a press conference to dispel the widespread impression that he had been involved in the Recruit scandal.

However, the attempt backfired, as the opposition parties seized on a potential inconsistency in his remarks to demand that he be obliged to appear before the Diet to answer their questions. They are threatening to block proceedings until the LDP agrees.

These events, together with the impression that the LDP's reverses will continue indefinitely, add up to the widely held view that the prime minister is no longer capable of handling the situation. The LDP is a coalition of fractions forces at the best of times and, even before the current crisis, many knives were pointed at Mr Takeshita.

Members of the big faction led by Mr Kiichi Miyazawa are still in high dudgeon because they do not feel that the prime minister worked hard enough to prevent their leader's resignation over the Recruit scandal last November.

Members of the faction led by Mr Shintaro Abe suspect that Mr Takeshita is trying to wriggle out of a deal by which their man would become prime minister later this year. If Mr Takeshita gives in to opposition pressure to make Mr Nakasone testify, then he will have the Nakasone faction at his throat as well.

Despite the current mood of crisis, a few analysts in Tokyo are taking a calmer view. "The mood has changed but none of the fundamentals have," one Western diplomat said on Friday. They point out that it has long been accepted that the LDP would lose seats both in the partial upper house election this year and in the general election whenever it is called.

The party's landslide victory in the last election in 1986 was considered a near miracle by party members themselves, so the current anxiety in LDP circles was probably inevitable, even if there were no Recruit scandal.

They also say that even if it were agreed among the other factions that Mr Takeshita was no longer equal to the job, this is one time when it appears impossible to fill the proverbial vacuum.

All the leaders and potential leaders in the other factions are at least as affected by the Recruit case as Mr Takeshita, so there would be no political benefit for the LDP in replacing the prime minister with one of them. The notion of calling in one of the party's elder statesmen is also unlikely to advance things for very long.

Mr Dan Harada, an independent political analyst, said the current unease was based to some extent on the idea that things would continue to get worse for the Government, especially in connection with the Recruit scandal.

"I think things look better now than they did two weeks ago," he said, adding that the prosecutors were hearing the end of their investigations, and suggesting that once they had finished, it would be more difficult for the opposition parties to maintain the initiative.

Mr Takeshita himself seems quite cool, insisting again at the weekend that the Cabinet was not thinking at all of mass resignation, as some have suggested. Nor was he thinking of dissolving the lower house for a general election.

He also indicated that he would be willing to produce documentation about alleged purchases of Recruit Cosmos shares by one of his former aides, which suggests that he at least can see an end to it.

Four face bribery charges in funding scandal

Two former managing directors of Nippon Telegraph and Telephone (NTT), and two top executives of the Recruit publishing group, were indicted at the weekend on bribery charges, Ian Rodger reports from Tokyo.

The four were arrested, and held in jail since mid-February, on suspicion of bribery. Disclosures since last summer of widespread financial gifts by the Recruit group to politicians, civil servants and business contacts have rocked Japan's political life.

Mr Hiromasa Ezoe, founder and former chairman of Recruit, was charged with directing an operation to bribe senior officials of NTT in return for their assistance to developing Recruit's telecommunications business. Mr Hiroshi Kobayashi, a former vice-president of First Finance, a Recruit subsidiary, was charged with bribing NTT officials.

Mr Ei Shikiba and Mr Hisahiko Hasegawa, former managing directors of NTT, were charged with accepting bribes from Recruit in the form of pre-flotation shares of Recruit Cosmos, a Recruit subsidiary, in 1986.

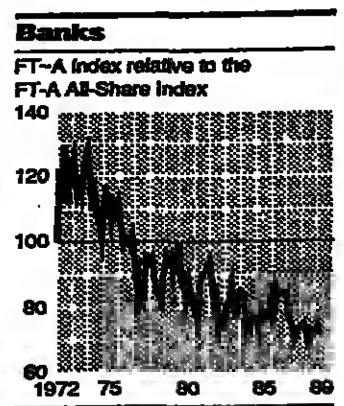
A special unit to the Tokyo public prosecutor's office, which is investigating the Recruit scandal, is expected to focus its attention on the alleged role of Mr Hisashi Shinto, former NTT chairman, and Mr Yasuhiro Nakasone, former premier, in relations between Recruit and NTT.

NTT bought two US-made supercomputers and re-sold them to Recruit in 1986 and 1987 at a time when the Nakasone government was under pressure from the US Government to buy more US supercomputers.

THE LEX COLUMN

The crowded world of banking

Abbey National's plan to sell itself to the City, which moves into top gear on Wednesday when it bares its financial soul ahead of its flotation, could still face a struggle. Some of its members have understandable reservations about the wisdom of the move, and its recent diversification means that its 1988 profit growth is likely to look unspectacular beside some of its rivals. This is bound to fuel the longer-term debate about whether it can earn an anywhere-near-decent return on the £1bn of extra capital it hopes to invest in an already over-capitalised industry.



In spite of the recent announcement of record profits from the UK banks, their inferior record is reflected in their stock market rating. Over the last decade, the bank sector has underperformed the market by 28 per cent, and now yields 50 per cent more than the market. Barclays and NatWest, the rare Triple A credit ratings of which reflect their undoubted strength, are selling at around 5 times earnings. It is the lowest-rated sector on the market.

The position of many of the big US banks, some of which sell on 4 times earnings, is even worse. Indeed, to terms of stock market capitalisation – though not assets – Barclays is now bigger than any US bank; and the fact that the humble TSB is worth far more than such famous names as Chase Manhattan, Chemical and Manufacturers Hanover is a reminder of how times have changed. Ten years ago these were the banks which really counted in the banking community.

It is easy to explain their fall from grace. The heavy losses on Third World debt undoubtedly played a part; and the competitive position of US money centre banks, in particular, has been hurt by archaic regulations which permitted their investment bank competitors to steal much of their business. However, the basic problem is that there is considerable surplus capacity in the banking industry. Whereas this can be solved in other industries by allowing companies to go bust, this is almost never allowed to happen in the banking industry.

Of course, banking capacity shrinks when banks make bad loans – something which their record in Latin America, the oil patch and real estate suggests that many of them are very good at. However, this has been more than offset by bank regulators' insistence on ever higher capital ratios. As a result, there is now too much capital chasing too little business, and banking margins are under pressure.

This may all sound like a totally different world to a newcomer such as Abbey, which certainly does not intend to make the same mistakes. However, mainstream retail banking is a commodity business. The more capital that is injected, the greater the pressure on margins. The speed with which banks started to pay interest on current accounts in order to protect their core business from the building societies is the most obvious example of the process. The TSB flotation added £1.5bn of new capital, Abbey wants another £1bn and a couple of imitators could easily raise another £1bn over the next year or two. Those are very sizeable sums when set against the £10bn or so of equity that the UK clearing banks have tied up in the domestic market. It will be hard to make a convincing case for investing in Abbey.

New issues

Last week's setting up of a Stock Exchange committee to look into new equity issues is a further glimpse into an embattled world. The committee's brief seems to take in most of the contentious issues of the day: London's place in 1992, paperless settlement, wider share ownership and privatisation. The most striking item on the agenda, though, has little connection with any of those; pre-emption rights, it seems, are under attack again.

It remains slightly unclear what is behind this. Aside from one or two past cases such as Fisons, companies do not seem particularly restricted under the present system; the London institutions seem to have enough appetite for equity to finance expansion, however cosy the mechanism. And the idea that pre-emption rights run counter to wider share ownership looks less and less plausible. If anything, the present system of allotment leans towards private shareholders, as a means of keeping the institutions underweight and ensuring a good after-market; the US style of syndicated offerings would be more likely to send stock direct into institutional hands.

This is not to say that the committee will be wasting its time. The question may be less one of an outflow of existing business, more of attracting foreign companies to London as a source of capital. And if the secondary market is badly served in terms of execution and settlement, the primary market will be the weaker. But these are questions which the Stock Exchange is addressing already: too many committees, not enough action.

Time Warner

It is no doubt just a coincidence that Time and Warner announced their merger only days after Mr Murdoch disclosed plans to raise a war-chest for immediate acquisitions, but it is clear that this is very much a defensive mood. Warner has brushed painfully with Mr Murdoch before and everyone from Mr Robert Maxwell onwards have cast their eye over Time. By combining into the world's biggest media and entertainment conglomerate, Time Warner should be effectively takeover-proof and the US will have a $15bn company which can hold its own against the Europeans.

Friendly mergers are exceedingly rare on Wall Street these days, but to some extent the deal makes commercial sense. There are obvious areas of overlap such as cable TV, where the combined operations will benefit from access to Warner's huge film library. However, there are a number of negatives, ranging from the vastly-differing corporate cultures to the fact that Warner's biggest shareholder is far from keen about the deal, to suggest that it will not be a happy marriage. Warner's shares rose by 11½ per cent last week and should rise further today provided Time's own share price does not collapse more than expected. That said, Time is paying a very small premium for control and the equal representation of directors on the board does not augur well for the future. It is not an obvious formula for enhancing shareholder value.

There is still an outside chance that the deal will not be consummated. However, almost all of the main Wall Street investment banks are already involved in the deal and while Mr Murdoch and Mr Maxwell have plenty of ambition, even they are too heavily indebted.

Easier London SE rules 'temporary'

By John Plender in London

MR DAVID Walker, chairman of the Securities and Investments Board (SIB), has warned that the recent relaxation of the London stock exchange's dealing rules for market makers should not be allowed to continue indefinitely.

He said the SIB had reservations about the exchange's decision last month to exempt market makers from making public disclosure of large bargains until the day after the transaction.

The change, which has been attacked by leading US securities firms in London, was only justified in the short term because of the difficult market conditions in which firms were operating, he added.

The exchange's move followed complaints from firms with a large British clientele that they were vulnerable to spoiling tactics by smaller competitors because of the rapid availability of information about large bargains on the screen. Late last year, two leading market makers, UBS Phillips & Drew and Barclays de Zoete Wedd, ceased quoting prices on the exchange's screen-based system in more than nominal amounts. Institutional investors alleged that liquidity – the ability to deal in size without causing undue price fluctuations – had deteriorated as a result.

Mr Walker said he regretted the loss of transparency arising from the recent rule changes. There was, however, a conflict in the short term with the need for liquidity. "I would hope," he added, "that as market conditions improve it would be possible for greater transparency to be reintroduced, possibly by raising the cut-off point for immediate disclosure of large bargains or shortening the period of exemption from disclosure, or some combination of the two."

The present threshold for delayed disclosure of large transactions to Alpha stocks – the securities of the biggest companies in the market – has been fixed by the exchange at £100,000 (about $57,000).

Editorial comment, Page 18

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	16	61	Dubrovnik	S	14	57	Malta	S	17	63	Rhodes	F	16	61
Algiers	S	21	70	Edinburgh	C	12	54	Manchester	C	12	54	Rio de J'o	C	35	95
Amsterdam	C	13	55	Faro	F	16	54	Manila	C	24	75	Rome	S	17	63
Athens	T	11	52	Florence	S	10	50	Melbourne	F	24	75	Salzburg	S	11	52
Bahrain	S	25	77	Frankfurt	C	9	48	Mexico City	F	23	73	San Francisco	C	10	50
Bangkok		-	-	Funchal	S	16	60	Miami	S	23	73	Seoul	F	3	37
Barcelona	F	13	59	Geneva	S	15	59	Milan	S	14	57	Singapore	T	28	82
Beirut		-	-	Gibraltar	S	18	64	Montreal	R	-6	21	Stockholm	Sn	1	34
Belfast	C	12	54	Glasgow	R	11	52	Moscow	C	2	36	Strasbourg	F	14	57
Belgrade	F	16	60	Guernsey	C	8	45	Munich	S	13	54	Sydney	F	25	77
Berlin	S	11	52	Helsinki	C	2	36	Nairobi	F	28	82	Taipei	F	25	77
Biarritz	S	21	70	H. Kong	F	17	63	Naples	F	16	61	Tangier	C	20	68
Bombay	S	28	70	Innsbruck	S	10	50	Nassau	F	20	68	Tel Aviv	S	21	70
Bordeaux	S	15	59	Inverness	C	8	46	New Delhi	S	25	77	Tenerife	S	20	68
Brussels	S	14	57	Islamabad	F	21	70	New York	D	1	34	Tokyo	R	7	45
Budapest	S	12	54	Istanbul	R	12	54	Nice	S	15	59	Toronto	C	-3	27
B. Aires	F	27	81	Jakarta	R	29	84	Nicosia	F	16	61	Tunis	F	15	59
Cairo	S	21	70	Jersey	F	11	52	Oporto	C	15	59	Valencia	S	17	63
Cape Town	S	23	73	Jo'burg	S	25	77	Oslo	F	8	46	Venice	S	13	55
Caracas	C	25	77	Lima		–	–	Paris	S	15	59	Vienna	S	15	59
Casablanca	F	16	61	Lisbon	C	16	61	Peking	F	8	46	Warsaw	C	3	37
Chicago	C	-7	19	London	F	15	59	Prague	S	11	52	Washington	C	4	39
Cologne	C	13	54	Los Angeles	F	10	50	Reykjavik	Sl	2	36	Zurich	S	11	52
Copenhagen	C	8	46	Luxembourg	Fg	8	46								
Corfu	S	17	63	Madrid	F	14	57								
Dallas	Sn	-6	21	Majorca	S	16	61								
Dublin	C	13	55	Malaga	S	18	64								

Readings at mid-day yesterday

C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Eurobond houses to alter issue practices

By Andrew Freeman in London

LEADING Eurobond houses are set to alter radically their procedures for issuing bonds amid growing concern that market practices are driving away investors at a time when most banks involved in the market are already losing money.

Senior Euromarket officials said they planned to abandon current new issue practice in favour of a system designed to instil greater confidence and discipline.

Credit Suisse First Boston, one of the most influential players in the market, last week brought simmering discontent to the boil by deciding to stop quoting prices of new issues to independent brokers which act as intermediaries during distribution.

Under current practice, the bank chosen by a borrower to lead-manage an issue buys the bonds from the borrower and forms a syndicate of banks to place the paper with investors. Co-managing banks are invited to join an underwriting syndicate, but usually have to wait for up to three months before they know the final price at which they bought bonds.

The common feature of several plans being formulated to change market practice is that co-managers invited by a lead manager to join a syndicate will be allocated a set number of bonds at an agreed price.

Mr Hans-Joerg Rudloff, chairman of Credit Suisse First Boston, said that where CSFB was lead manager the bank would no longer make any prices of new issues to independent brokers and would request syndicate members not to do so.

The decision by CSFB, itself the subject of recent criticism over its handling of several issues, follows long-standing controversy over abuse by both lead managers and co-managers of established procedures.

Lack of profitability to the Euromarkets has forced houses to address what one official at Union Bank of Switzerland called an untenable position.

Mr Rudloff said: "While it is not necessarily a good thing to have a two-way price in an undistributed new issue from the moment it is launched, CSFB will provide a bid price if that is what the market wants. However, we will do so only to syndicate members, not through, for example, bond broking houses."

CSFB's decision would prevent market participants from selling bonds they did not own, a practice which often artificially lowers prices of new bonds.

Other Eurobond houses reacted with cautions approval. Mr Takumi Shibata, a senior official at Nomura International, said: "We are happy to support any experiment which results in better syndicate discipline and which encourages lead managers to price their deals more accurately."

A UBS official said the bank would back anyone trying to solve the new issue problem. "We are all aware of the fact that houses must be given time to distribute bonds without disruption from professional traders," he said.

Among other houses which have either decided or are considering revision of their new issue procedures are Union Bank of Switzerland, Swiss Bank Corporation, Nomura, Deutsche Bank, JP Morgan, and Shearson Lehman Hutton International.

Eurobonds, Page 22

FINANCIAL TIMES
COMPANIES & MARKETS
Monday March 6 1989

INSIDE

Plessey gets backing from McKinsey

McKinsey, the management consultancy, has taken the unusual step of declaring its support for Plessey in its battle against the General Electric/Siemens. By jettisoning its hard won impartiality, the consultants aim to dispense unhindered advice on general corporate strategy and some aspects of Plessey's defense tactics. Matters are further complicated by McKinsey having Siemens as client in West Germany. Terry Dodsworth reports. Page 25

Eurobond see-saw starts to wobble

Goodbye stabilisation? After months when nearly all Eurobond houses have been losing money or struggling to break even, the leading players say they have had enough. They are going to start attacking practices which damage the market's reputation, notably the process by which a stable price background is ensured for a new issue. Page 22

LVMH struggle moves to court

The struggle for control of Moët Hennessy Louis Vuitton, the French luxury goods group, moves from the boardroom to the courtroom today when Mr Bernard Arnault, the chairman, seeks a court injunction designed to end the rearguard challenge to his authority put up by Mr Henry Racamier, president of Louis Vuitton and leader of the Vuitton family shareholding interests. Page 23

Good design isn't bunk

The design-led revival of the Ford Motor Company has produced much of the inspiration for a US campaign with the message that better design can improve companies' commercial fortunes. A campaign on the same theme has been waged in Britain by the Government, and its latest flurry has just begun. Yet on neither side of the Atlantic has this drive had much success. Christopher Lorenz examines why in the Business Column. Page 36

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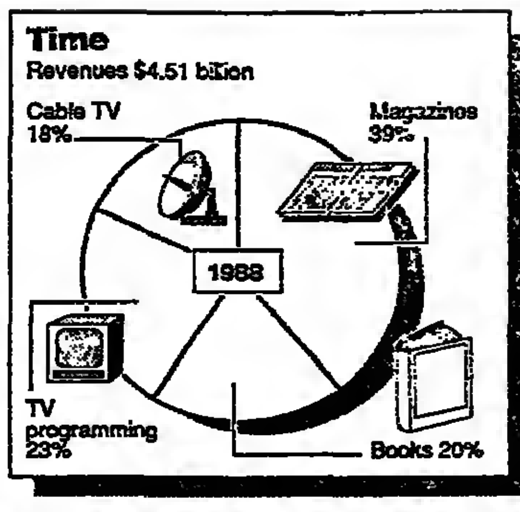
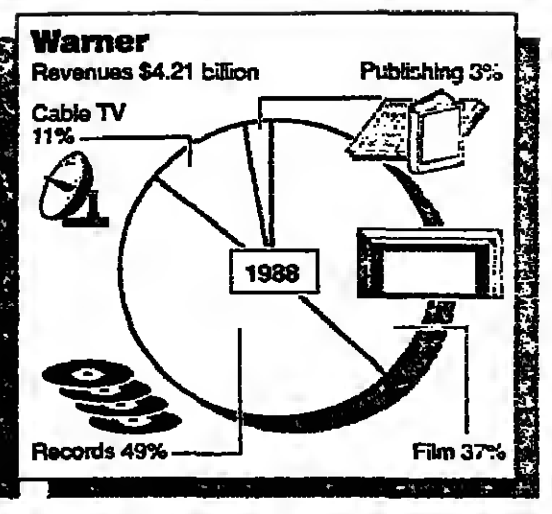
Time Warner deal takes US back to the future

James Buchan explains how two media groups plan to merge their forces to fight off global encroachment





Time and Warner Communications, which said yesterday they would merge, have only one business in common, which is cable television. But as companies they are like two peas in a pod.

Both were founded in the 1920s and prospered for two generations as the industries they created, *mass market magazine publishing* and motion pictures, colonised the US and much of the world. Step by step, their attitudes have converged. Time has expanded into television while its magazines seem more a product of the entertainment industry than old-fashioned journalism.

Now elderly Manhattanites, the two companies have good midtown addresses and a weakness for executive luxury which they try every now and then to kick. Though each is seen as well run, neither is accorded much respect in the stock market. Warner escaped takeover in 1983 while Time has been touted as a candidate for break-up for years.

Above all, they are losing their leading positions in the world market. In the past five years, companies from Europe, Australia and Japan have invaded the industries Time and Warner invented and carted off large pieces to serve as building blocks for their own global ambitions.

Take the case of magazines. In 1988 alone, Mr Rupert Murdoch, whose empire was built in Australia and the UK, spent $3bn (£1.7bn) to take over the wildly successful TV Guide and other titles in the Triangle Publications group. Hachette of France spent over $700m to buy six other magazines, including Women's Day.

In that period, Time's main magazine acquisition was the $185m purchase of half of Whittle Communications, a company which focuses on captive American readers such as patients in doctors' waiting rooms. While Time's six main titles – Time, People, Fortune, Sports Illustrated, Money and Life – still command their US markets, Time remains small overseas.

Warner has always been more globally minded. But in its main business, which is its $2bn-sales records operation, foreign companies are also making the running. With the sale of CBS Records to Sony at the end of 1987, Warner is the last big US producer. Mr Steven Ross, Warner's chairman, said: "This was an industry that America created, but all of the companies other than Warner that were started by Americans are now owned by British, Japanese, German, Dutch companies."

In book publishing, where Time is strong, Bertelsmann of West Germany and Mr Robert Maxwell of the UK have scooped up big chunks of the English-speaking territory. Even Hollywood is being taken over. Sony, which is evidently pleased with CBS Records, is looking at the purchase of a film studio. Talks to buy MGM/UA, the remains of two famous studios from Hollywood's golden era, broke down last year but the Japanese electronics company is known to be interested in Columbia Pictures.

With the Time Warner deal, the Americans are striking back.

According to Mr Geoffrey Holmes, a senior vice president at Warner, the talks between the two companies began modestly two years ago. They involved Mr Ross, Mr Richard Munro, the chairman of Time, and his high-flying deputy, Mr Nick Nicholas, and mostly took place informally at Mr Ross's house on the Upper East Side. The plan was to put the cable businesses together along with Time's pay television and Warner's production studio. Then Mr Munro suggested a full-blown merger.

Both had defensive reasons for wanting a merger. Time has been under takeover threat while Mr Ross, a man known for wide horizons and high overheads, has had well-publicised disagreements with Warner's penny-pinching main stockholder, Mr Herbert Siegel of Chris-Craft Industries. (As part of yesterday's proposed stock swap, Chris-Craft's 17 per cent voting block will be diluted to about 10 per cent. The New York Times reported that Mr Siegel abstained at Saturday's Warner board meeting but this could not be confirmed.)

Both companies say the merger will create a global US company which can compete worldwide. Mr Nicholas, who will run the combined company, said: "We believe there will emerge, on a worldwide basis, six, seven, eight vertically integrated media and entertainment megacompanies. At least one will be Japanese, probably two. We think two will be European. We think there will be a couple of American-led enterprises, and we think Time Inc is going to be one."

The sweep of the combined company is remarkable. It will be the world's second largest magazine publisher, cable television operator and record company and the largest pay-television company and direct marketer of books. And though Warner has been the largest film studio only intermittently, it is easily the most consistently successful. The revenues of the joint company will be the best part of $10bn, more than Bertelsmann, the largest media company up to now.

In addition to its size, Time Warner will be awesomely well-capitalised. Because the merger is in the form of a stock swap, not a cash purchase, the combined company will have no additional debt. With potentially more than $8bn in shareholders equity, and little more than half that in debt, Time Warner will be able to raise large capital sums for acquisitions. Mr Murdoch has tacitly admitted he had touched the edge of his financial room to manoeuvre by seeking outside investors to capitalise a new company to make acquisitions.

The big question facing Wall Street is how the combined company will be run. Only the cable companies will be combined. The remaining operations will be run as decentralised operations, "reporting to Steve if they report to Steve," as Mr Holmes puts it, "or to Nick and Dick, if they report to Nick and Dick." There will be only nine corporate officers. Whether this arrangement works out has to be seen.

President Bush's high altitude test

A kinder, more gentle stance on trade unions could win a battle for the US leader, says Anthony Harris in Washington

President George Bush may have inherited some of President Reagan's luck, for just as he is facing ignominious defeat in the Senate over his choice of Secretary of Defence, the trade unions have offered him a battle he can win. Then perhaps he can forget about proving his manhood. If he does win, he may also achieve more than the Federal Reserve could through monetary policy to check the inflation which threatens the Republican economic miracle.

This, in short, is the big one. This time it is Mr Bush's opponents who have allowed old loyalties to lead them into a trap. The machinists have long been in dispute with Mr Frank Lorenzo, head of Texas Air, which owns Eastern Air Lines, for more than a year. It is a fight in which they might expect a good deal of public support: Mr Lorenzo has a well-known reputation as a ruthless union-buster.

He has already been able to depress pay in his other big airline, Continental, far below the industry average by allowing it to go bankrupt and then getting rid of the unions altogether, and has been demanding big pay cuts from his ground crews when other airlines, which pay more than he does, are making profits. He is now threatening to declare Eastern bankrupt.

This is a fight in which the labour movement is passionately engaged, and it could be presented as a classic case of face-grinding. But the unions seem bent to throw away public sympathy by confusing the issue.

The public has largely forgotten about the Eastern dispute because the two sides have spent so long locked in immobile struggle like a pair of Sumo wrestlers. The public is bored. Instead of explaining the issues, the unions are threatening to take on the President as well as Mr Lorenzo by mounting secondary pickets of other airlines and rail services.

The aim of this can be defended in strict logic, but it looks politically suicidal. The unions are trying to force the President and Congress to intervene in the dispute as mediators because they are sure of the justice of their cause. In real life, there could hardly be a better way to prevent mediation. Mr Bush has yet to prove he is wise or bold; he has already shown he is obstinate.

If the dispute was simply with Mr Lorenzo, the Democrats in Congress would probably welcome the chance to position themselves as the supporters of the working man against a President who is supporting the most ruthless kind of boss.

If the strikers turn against the whole transport system, and thus against the public, the strategy no longer looks attractive. The issue becomes trade union blackmail rather than Mr Lorenzo's ruthlessness. Nobody want to vote for blackmail, least of all a Congress which learnt during the argument over its own pay just how unpopular it has become.

The unions have not yet taken the final step. Perhaps somebody at the AFL-CIO (the American TUC) has been looking up what happened to Mr Arthur Scargill when he deployed secondary pickets and took on Mrs Thatcher. If sanity suddenly took over from rage, the issue could still prove awkward for the President because mediation sounds like what a kinder, gentler President ought to do. The odds are that trade union anger is too strong to be checked.

This fight could be a turning point not only for the President, who has the chance to recover his fumbling start, but for the whole US economy. Inflation is a much more pressing potential threat to its progress than the trade and budget deficits, important as they are.

If inflation takes off, Mr Bush is likely to discover, as Mr Reagan did, that it can only be stopped at the cost of an outright recession. A recession, incidentally, might temporarily close the trade gap, but it would make the budget deficit substantially worse, and the Bush deficit plan, which depends on growth, would be dead. The outlook for inflation, in turn, depends quite heavily on trade union attitudes.

The real economic miracle of the Reagan era was wage restraint. The political shock of the air traffic controllers' dispnte, followed by heavy job losses in the Reagan recession, left the unions demoralised.

US productivity was sluggish during the Reagan presidency, but that did not undermine cost competitiveness because real wages did not rise. At the factory level, unit labour costs have been stable despite sharply rising welfare costs. Consumers were further protected by falling energy prices and fierce competition among retailers.

In the seventh year of the expansion, though, this luck is running out. World demand is pushing up the price of energy and many key materials, and there is little more to be squeezed out of retailers. Indeed, sellers of cars and other durables are already trying to restore their margins by imaginative overcharging for service on goods they sold at a discount.

Adjustments like this, coupled with the drought, and the fact that the retail trade has avoided the price cuts they were forced to use last winter to move swollen inventories, go most of the way to explain the rise in seasonally adjusted January inflation.

That 0.6 per cent price rise (0.5 per cent if you leave out food and energy) has provoked a lot of gloom among professional pessimists in Wall Street. Though it is almost impossible to build much on it, as even Mr Alan Greenspan of the Fed has conceded, and has not stopped Mr Greenspan's monetarist critics accusing him of killing the expansion in deference to market views. However, if wages responded to the blip in prices, all doubts would be removed: this would be an inflationary spiral.

The spiral has already started strongly, if you follow the official figures for personal income, which show employment income rising at an annual rate of 9 per cent in the last six months. But it has barely moved if you measure it by the Labour Department's figures for hourly pay, which show a rise of 4.4 per cent.

What is clear, though, is that the unions would like to play catch-up and claim some reward for the productivity improvements of the last eight years.

They have been preoccupied for years with job security, health and pensions, but the long boom has changed the mood. Mr Lane Kirkland, head of the AFL-CIO, put it in one sentence recently: "Our first concern now is money." The air dispute will confirm that confidence, or puncture it. It really is the big one.

Economics Notebook

The budget surplus duopoly

"THERE MUST be a budget surplus equal to the difference between voluntary savings and investment, or there will be either inflation or an adverse balance of payments."

The above quotation is not a leak from the Chancellor's Budget speech, still less a conclusion drawn by a free market think tank.

It was written by Mr Arthur Lewis, a moderate Fabian economist, in a book called The Principles of Economic Planning, published in 1949. It is quoted here to show budget surpluses are not a monopoly of conservative or free-market thinkers but can form part of left-wing economics.

It is four months since Mr Cecil Parkinson, the Energy Secretary, first disclosed how Mrs Thatcher's eyes "gleamed" at the thought of eliminating the national debt.

In eight days, Mr Nigel Lawson, the Chancellor, will recount in his Budget that the process has made dramatic strides in the present financial year and is set to continue in 1989-90.

On average, the 11 independent forecasting groups, whose research is tracked by the Treasury, expect a budget surplus or public sector debt repayment (PSDR) of £11.9bn in 1988-89 rising to £14.5bn in the financial year starting in April. City forecasters surveyed by the Treasury expect an even bigger budget surplus of £15.3bn in 1989-90, equivalent to just under 10 per cent of the £158bn anticipated stock of national debt at the end of the current financial year.

These latest forecasts make the 17 years that Mr Parkinson said might be needed to eliminate the national debt appear somewhat cautious. Indeed, Mr Richard Jeffrey, chief economist at Hoare Govett Investment Research, projects the debt could be repaid as soon as the 1995-96 financial year.

Mr Jeffrey's projection, which is based on expectations of a modest slowdown in economic growth and broadly constant increases in Government spending in the next seven years, envisages a steady increase in the PSDR from £17.8bn in 1990-91 to £37.5bn in 1995-96. His projection is vulnerable to changes in economic conditions and policies. But the sheer speed of the debt repayment it envisages suggests the Government should make consideration of the policy implications of its large budget surpluses a priority.

Despite Mrs Thatcher's predictions, it is far from clear that eliminating the national debt is in the interests of her own Conservative Party or the maintainance of free market economic principles.

Only last Friday, a Gallup poll in the Daily Telegraph showed that only 7 per cent of voters thought the Government should use the surplus to repay the national debt compared with 84 per cent who favoured increased spending on services such as health, education and roads.

Back in 1949, Mr Lewis advocated running a budget surplus to give an interventionist government scope for large investment programmes.

Mr Lewis's ideas hardly sound like Thatcherism. Instead they could provide an answer to one of the Labour Party's major complaints about the present Government's economic policies.

Mr Bryan Gould, Labour's trade and industry spokesman, has made no secret of his belief that many of Britain's present economic problems derive from a wide-ranging lack of investment in science, research and development, economic infrastructure, training and manufacturing. His view is that governments have a responsibility to make sure that deficiencies are made up.

When Mrs Thatcher first contemplated the elimination of the national debt four months ago, such thoughts would have been academic: Labour was lagging in the opinion polls. Now that the two main parties are level pegging, the Government's policy of accumulating budget surpluses could work in the long-term interests of the opposition.

EMS example

Unaccountably, rumours started circulating in Rome last week that Britain might be preparing to revise its opposition to taking the pound into the exchange rate mechanism of the European Monetary System. Downing Street responded with the predictable denial. The time still is not ripe to peg sterling to the D-Mark.

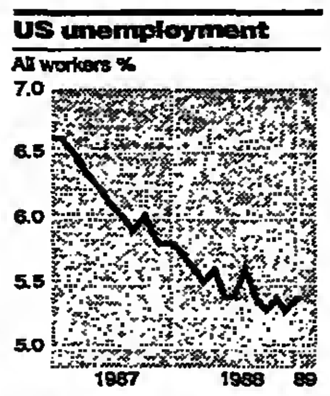
In view of the British Government's need to control inflation, the latest economic survey on France from the 24-nation Organisation for Economic Co-operation and Development in Paris makes interesting reading.

The OECD wrote that one of the cornerstones of France's macroeconomic strategy has been to maintain the parity of the franc within the EMS. While conceding that the policy has sometimes meant high interest rates, the OECD said it was difficult to see how any other policy could be more successful in imposing monetary discipline and promoting disinflation.

"Persisting with this approach is the best way to guarantee a low rate of inflation," it said.

Peter Norman

THIS WEEK



THE LINK between the US labour market and inflation is likely to be a main theme in financial markets this week with February's employment report published on Friday.

Previous months' employment figures have been associated with increases in interest rates by the Federal Reserve. Another steep rise this week could increase speculation about further tightening to cool cost pressures.

The consensus of analysts' forecasts, compiled by MMS International, the financial research company, is for non-farm payrolls to rise by 243,000 after a 408,000 increase in January. The unemployment rate is forecast to remain unchanged at 5.4 per cent.

Analysts will also be looking closely at the rise in manufacturing employment which will provide a guide to potentially inflationary capacity pressures.

In West Germany, trade figures for January are expected to be released sometime this week and will show whether large surpluses at the end of last year have subsided. In December the merchandise trade deficit was DM13.5bn ($7.5bn).

Another big surplus would raise problems of global trade imbalances, possibly affecting speculation about international trends in interest rates.

Also due this week are figures for industrial orders for February. These will indicate whether fast growth last year is continuing and if it is being led by export or domestic demand.

UK financial markets are likely to focus on the strength of the consumer sector. Final retail sales figures for January are published today and could show a revision to the steep 1.5 per cent fall recorded in provisional figures.

The Confederation of British Industry/Financial Times distributive trades survey for February on Thursday will show retailers' sales last month and expectations for March.

Other events and statistics (with MMS International consensus in brackets) include:

Today: European Community industry and agriculture councils meet in Brussels. US purchasing managers survey for February. Three-month, six-month Treasury bill auction.

Tomorrow: US consumer credit in January (+$4bn). Productivity and costs data for fourth quarter 1988. Three-month, six-month Treasury bill announcement. Mr Pierre Beregovoy, French finance minister, speaks at seminar on Europe in Paris. UK housing starts and completions in January.

Wednesday: UK Department of Employment publishes Employment Gazette.

Thursday: Australian unemployment in February. US 52-week bill auction, three-month, six-month Treasury bill settlement.

Friday: US wholesale trade data for January. UK usable steel production in February, construction output in fourth quarter 1988. Sir Leon Brittan, European Community commissioner, holds briefing on competition policy and financial services in the single market.

INTERNATIONAL CAPITAL MARKETS

EUROCREDITS

Exchangeable facility for Turkish bank

THE CENTRAL bank of Turkey has ventured into the market for its first medium-term financing in years, with a novel structure that, at least for the first two years, will allow it to raise funds at a cost well below that for earlier borrowings.

The loan, arranged by First Chicago, is a $150m seven-year exchangeable facility which may be increased to $200m. The novelty exists in the exchangeability clause which allows banks to exercise an option converting their debt to a six-month tradeable Euronote after 18, 30 or 54 months. The catch is that the Euronote carries a very low yield equal only to London interbank offered rates (Libor). For the first 18 months of the loan, the margin is 1⅛ per cent over Libor, rising to 1¼ per cent thereafter.

In addition to front-end fees of 45 basis points, lenders are offered a carrot in the form of fees paid at the start of each exchange period to those who elect to hold their loans a little longer. Those who hold loans past 18 months earn a 90 basis point fee, past 30 months an extra 85 basis point fee and past 54 months an extra 10 basis point fee.

First Chicago estimates that all-in returns to lenders who get out after two years is 1.07 per cent over Libor. Compared with the central bank's last Eurocredit a year ago, the financing looks generous for Turkey, at least for the first two years.

In 1988 the central bank, for a three-year loan, paid 1¼ per cent margin on top of a front-end fee of 1¼ point.

Those who get out after three years earn 1.43 per cent over Libor, while those who get out after five years earn 1.53 per cent over Libor and those who hold to maturity earn 1.54 per cent over Libor.

Oil Insurance, an insurance company based in Bermuda and owned jointly by the world's 47 largest oil companies, is in the market for its first-ever Eurocredit.

The borrower is a company with only minimal assets of its own and the loan is guaranteed by its subsidiary, Oil Investment Corporation, whose assets are about $1.1bn.

Oil Insurance is seeking the funds after heavy losses in its property and pollution liability insurance business in 1988. However, its charter allows it to assess premiums on its joint owners in a manner that guarantees it cash flow sufficient over time to cover the normal payment cycle.

The loan, arranged by Chase Investment Bank, is a $400m three-year loan consisting of a $250m committed term loan and a $150m revolving credit. The loan carries a commitment fee of ⅛ for the first six months, rising to ⅜ for the next three months, after which point the loan will be fully drawn or cancelled.

It carries a margin of ¼ over Libor. The revolving credit carries a commitment fee of ⅛ and also has a margin of ¼ point.

Raine Industries has mandated Barclays de Zoete Wedd to arrange a £50m multi-option facility which will incorporate a tender panel to bid for short-term sterling acceptances of multi-currency cash advances. It will be underwritten to £40m by banks committing for a five-year term. Raine has also mandated Midland Montagu to arrange a complementary £50m commercial paper programme.

Norma Cohen

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	13,819.2	20.0	122.0	15,271.4
Prev	11,934.0	0.0	1,371.0	11,434.0
Other	5,480.7	16.5	1,259.1	2,548.9
Prev	5,621.9	13.5	71.1	2,335.4
Secondary Market				
US$	18,931.2	1,033.5	5,746.3	7,333.7
Prev	20,766.3	1,115.1	5,016.0	6,648.0
Other	19,420.7	1,134.6	3,741.9	23,654.8
Prev	18,786.7	1,287.9	3,076.4	27,070.7

	Cedel	Euroclear	Total
US$	15,504.7	46,772.4	62,277.1
Prev	12,650.6	45,633.8	58,284.4
Other	24,776.3	32,480.9	57,257.2
Prev	25,520.5	32,743.1	58,263.6

Week to March 2, 1989

Source: AIBD

INTERNATIONAL BONDS

Leading players back reform of new issue practices

AFTER MONTHS when nearly all Eurobond houses have been losing money or struggling to break even, it appears that leading players have had enough. They are not yet pulling out of the Euromarkets. They are saying very loudly that they will no longer tolerate abuses of market practices which damage the market's reputation among investors and encourage borrowers to demand unrealistic funding targets.

Mr Hans-Jörg Rudloff, Crédit Suisse First Boston's influential chairman, says the Eurobond market is in crisis, in danger of losing several big firms from the underwriting business and threatened from without by the European Community's withholding tax directives.

He argues that Eurobond houses, CSFB among them, must introduce a sense of discipline into their operations, urging other managers to review their approach and adopt more appropriate mechanisms for distributing new issues.

Nevertheless, syndicate managers are equally divided between those who breath a sigh of relief because it seems something is at last being done, and those who warn that they have heard it all before and are reserving judgment on CSFB's decision to change its new issue policy.

Mr Michael von Brentano, managing director of Deutsche Bank Capital Markets, said: "It is absolutely right and crucial to improve primary market practices."

Mr Hansgeorg Hofmann, managing director of Shearson Lehman Hutton International, went further, saying: "I'm in full favour of eliminating stabilisation because I am convinced this would impose more pricing responsibility on lead managers."

At the centre of debate is the way new issues are distributed and traded before they become secondary instruments. A consensus has emerged that both lead managers and co-managers have been at fault in the way they handle new issues. However, the balance of blame is shifting decisively towards the lead manager.

Stabilisation, the process whereby the lead manager ensures a stable background for distribution by artificially supporting the price, has long been criticised by co-managers because the lead manager deducts the cost of stabilising an issue from the syndicate's fees. Co-managers thus have to decide to enter the deal before they know the final cost of the bonds.

In the traditional picture, the co-managers were the villains of the piece, blamed by the lead manager for forcing stabilisation by irresponsibly selling their bonds straight back if they lacked the demand or placement power to sell them to investors.

Now, however, bear market conditions have led to closer examination of the relationship between the lead manager and its syndicate. In particular, the recent Toyota Ecu-denominated deal brought by CSFB and last week's spate of two-year dollar issues highlighted the wider nature of the Euromarkets' problems.

The Toyota deal, acknowledged as being tightly priced at launch, ended in a short squeeze because co-managers and professionals outside the syndicate sold more bonds to the lead manager than had originally been issued.

The short sellers defended their actions on the grounds that rising yields on the Ecu market made the bonds unattractive.

The result for them was a large loss on their positions; for CSFB it was ownership of the whole issue.

The two-year dollar deals were widely criticised for being tightly priced and for coming in such a rush that houses had little chance to place the bonds. Lead managers were furious, however, that they had to buy back large quantities of bonds which co-managers were unable or unwilling to sell.

Relationships between houses have deteriorated as market conditions have worsened. Most players agree that stabilisation encourages lead managers to price their deals too aggressively and allows co-managers to limit losses by dumping badly-priced paper.

One banker put it succinctly: "When was there last a problem with a well-priced deal?"

The question of new issue practice was discussed at length last year on the market practices committee of the International Primary Market Association (Ipma), but resistance to change meant that no recommendation was put to Ipma's main board for approval.

Ipma's board is due to meet in April, and the market practices committee, chaired by Mr Hofmann of Shearson Lehman Hutton, will meet before then. New issue practice is likely to be on the agenda again, but before a formal recommendation can be issued both the committee and the main board will have to demonstrate consensus.

Mr Hofmann said that discussion was ongoing and pointed out that previous talks had already had a positive impact.

Some Eurobond houses which were aggressive users of the stabilisation cushion have dramatically improved their pay-out record on underwriting fees. Most houses now keep records of their rivals' reliability on paying underwriting fees and take these into consideration when they are pricing deals with a view to accepting a co-management invitation.

A few houses have exemplary records, some still have bad reputations for deducting between 30 and 50 per cent of fees.

CSFB's initiative was widely welcomed by rival houses, most of which felt that some sort of move was long overdue. However, several expressed reservations about the particular route CSFB has chosen.

One Swiss bank which is currently reviewing an alternative means of encouraging syndicate discipline commented that independent brokers have a useful function. They display a price which investors can use to check the price charged for bonds by the lead manager and the syndicate, increasing the transparency of the market.

Andrew Freeman

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Nissho Iwai Corp.♦◆	400	1993	4	4⅛	100	Nomura Int.	4.125
Nissho Iwai Corp.(k)♦◆	400	1993	4	4⅛	100	Nikko Secs. (Europe)	4.125
Eisai Co.♦◆	300	1993	4	4¼	100	Nomura Int.	4.250
Atsugi Motor Parts♦◆	100	1993	4	4¼	100	Daiwa Europe	4.250
Tokyu Land Corp.♦◆	300	1993	4	4⅛	100	Daiwa Europe	4.125
Nitto Denko Corp.♦◆	150	1993	4	4⅜	100	Nomura Int.	4.375
Nikken Chemicals Co.♦	100	1993	4	(4⅝)	100	Daiwa Europe	*
Exxon Capital Corp.◆	250	1991	2	10	101.025	CSFB	9.414
Swedish Export Credit◆	125	1991	2	10¼	101.10	Sumitomo Finance Int.	9.619
Unilever Capital Corp.◆	200	1991	2	10	101⅛	IBJ Int.	9.357
SBC Finance Cayman Is.◆	200	1991	2	10	101.05	Swiss Bank Corp.	9.400
Volkswagen Int.Fin.◆	150	1991	2	10	100.85	J.P. Morgan Secs.	9.457
PKbanken◆	150	1991	2	10¼	101⅛	Daiwa Europe	9.605
Eurofima◆	100	1993	4	10⅜	101⅝	Nikko Secs. (Europe)	9.617
EIB◆	250	1997	8	10	102	IBJ Int.	9.630
Bk of Tokyo Curacao◆	150	1999	10	10⅜	102	Bk of Tokyo Cap.Mkts	10.419
Chevron USA◆	100	1991	2	10¼	101⅛	Merrill Lynch	9.605
European Community◆	140	1993	4	10	101.45	Nomura Int.	9.547
Nippon Shokubai K.K.♦	100	1993	4	(4⅝)	100	Nomura Int.	*
CANADIAN DOLLARS							
Canada Eldor Inc.◆	200	1993	4	11⅜	101½	Wood Gundy	11.264
Toronto-Dom.Bk Cay.Is.◆	100	1994	5	11⅞	101.90	ScotiaMcLeod	11.356
AUSTRALIAN DOLLARS							
Eksportfinans◆	60	1990	1	20½	101¼	CSFB	18.305
Nat.Nederlanden Aust.◆	50	1992	3	16¼	101.60	Amro Bank	15.543
Bqe Paribas Lux.(j)◆	40	1990	1	20¾	101¼	*Bqe Paribas Cap.Mkts*	18.673
D-MARKS							
Credit Foncier◆	300	1999	10	8¾	101¼	Deutsche Bank	8.578
Hellenic Ind.Dev.Bank◆	150	1996	7	7½	100	Dresdner Bank	7.500

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
SWISS FRANCS							
Godo Steel(e)**§◆	70	1993	-	½	100	SBC	0.500
*KYC Machine Ind.(c)**§◆*	50	1994	-	½	100	*SBC*	*0.500*
Osaka Diamond(h)**§◆	30	1994	-	½	100	Credit Suisse	0.500
Fuji Tekko Co.(d)**§◆	20	1993	-	½	100	B.della Svizzera It.	0.500
Lapine Co.(f)**§◆	35	1993	-	½	100	Banca del Gottardo	0.500
Shikibo Co.(g)**§◆	35	1993	-	½	100	Swiss Volksbank	0.500
Komatsu Forklift Co.**♦	70	1994	-	(1⅞)	100	SBC	*
Yokogawa Bridge Wks**§	60	1994	-	(½)	100	Credit Suisse	*
Toshiba Battery Co.**◆	10	1994	-	6½	100	Credit Suisse	5.500
Bk in Liechtenstein**◆	135	1998	-	5¾	100½	Deutsche Bk (Suisse)	5.662
Juki Corp.**♦	100	1994	-	(1⅜)	100	Credit Suisse	*
Heron Int. Finance◆	125	1998	-	8⅜	100⅛	Credit Suisse	6.306
STERLING							
ECSC◆	54	1994	5	11	101¼	Kleinwort Benson	10.632
ECSC◆	65	1997	8	10⅜	101⅜	Bankers Trust Int.	10.441
ECUs							
Credit Local de France◆	100	1992	3¼	9¼	101½	Credit Lyonnais	8.674
European Community◆	60	1992	3	9⅛	101⅛	Swiss Bank Corp.	8.693
LUXEMBOURG FRANCS							
Banque Louis-Dreyfus**◆	300	1994	5	8	100½	Credit European	7.875
EIB**◆	300	1995	6	7⅜	100	C.d'Epargne de l'Etat	7.750
YEN							
Den Danske Bank(a)◆	6bn	1994	5	6	101⅞	Morgan Stanley Int.	5.580
Skopbank(b)◆	8bn	1993	4	7	101½	Bankers Trust Int.	6.582
Compagnie Bancaire◆	10bn	1999	10	5.3	101⅞	Nomura Int.	5.057
Marubeni Int.Finance◆	7bn	1994	5	7	110⅞	Nomura Int.	4.621
Ireland◆	15bn	1999	10	5.1	100.40	Daiwa Secs.	5.112
Toyota Tsusho Fin.Int.◆	3bn	1993	4	7	109⅜	Yamaichi Secs(Europe)	4.393
World Bank(l)**◆	23bn	1994	5	8¼	101⅝	Salomon Brothers	7.845

*Not yet priced. **Private placement. ♦With equity warrants. §Convertible. ‡Floating rate notes. ◆Final terms. a) Redemption linked to Yen/A$ exchange rate. b) Redemption linked to Nikkei stock index. c) Put yields 1.917%. d) Put yields 1.896%. e) Put yields 1.844%. f) Put yields 1.885%. g) Put yields 1.802%. h) Put yields 1.811%. i) Redemption linked to Yen/US$ exchange rate. j) Redemption in either A$ or US$ at borrower's option. k) Issue launched in Asia. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Crédit Suisse strengthens global standing

William Dullforce on the aims of regrouping at Switzerland's third largest bank

A corporate restructuring announced on Friday at Crédit Suisse is seen by Mr Rainer Gut, chairman, as one more move towards realising his ambition to ensure Switzerland's third biggest bank a place among the small elite of truly global banks.

The regrouping under CS Holding, a sister company of Crédit Suisse, which becomes the parent company, follows logically on the $1.1bn merger last October which created CS First Boston. This global investment banking business is potentially the world's most powerful capital markets operator, based on the tripod of New York, London and Tokyo.

It will be managed on decentralised lines with greater delegation of authority than has so far been typical of Swiss banking. Adoption of the holding company structure for the whole group is being accompanied by a move to consolidated financial reporting and the conversion of non-voting into voting stock.

Crédit Suisse is thus taking the lead among the big Swiss banks in meeting criticism abroad of inadequate disclosure by the sector, and making at least tentative moves towards securing greater interest for its shares among foreign investors.

Initial reaction among analysts has been very favourable. Crédit Suisse's moves demonstrated that it is trying hard to adjust to the international financial climate and would put pressure on the two other big Swiss banks, Union Bank of Switzerland and Swiss Bank Corporation, to give a clearer picture of their real performance, they said.

Mr Gut has voiced his conviction that the Swiss banks can no longer count on "the safe haven provided by (domestic) cartels and private agreements." CS Holding, which will be based in the canton of Zurich, will regroup four business under its umbrella. It will hold 100 per cent of Crédit Suisse, the bank, as well as 44.5 per cent of CS First Boston, the investment banking arm, 45 per cent of Electrowatt, an electrical engineering and services company, and 94 per cent of Fides, a trust and management consultancy business.

Shareholders are being offered a favourable share exchange, greater insight into the companies' performance and an interest in a business whose simplified structure opens up new opportunities for growth, Mr Gut said.

The shareholders are invited to exchange one CS share, bearer or registered, for one CS Holding share of the same class. One CS Holding participation certificate is exchangeable for one-tenth of a CS Holding share.

Participation certificates were issued at SFr50 (bearer) and SFr10 (registered) compared with nominal values of SFr500 for the bearer and SFr100 for the registered shares.

In May a one-for-15 rights issue at par will be made. At current market prices the value of the subscription right would be SFr115 per bearer share and SFr23 per registered share or "somewhat higher" than the annual dividend, according to Mr Gut.

Had CS Holding existed in its new form at the end of 1988 its consolidated net profit would have amounted to SFr770m ($489m), compared with the SFr592m reported for Crédit Suisse.

This would have given a profit per new bearer share of about SFr201 against SFr170 on the Crédit Suisse bearer share in 1988, Mr Gut said.

While Crédit Suisse's changed structure must be seen as a genuine attempt to make its stock more attractive to investors, both domestic and foreign, there has been no movement on two key issues for foreign institutions.

No change *à la* Nestlé to allow foreigners to buy registered stock was announced, and no indication was given of how Crédit Suisse will in future handle Swiss banks' freedom to hive off part of their earnings to hidden reserves.

GM invests DM17m in W German parts plant

GENERAL MOTORS of the US is to invest DM16.8m ($9.3m) in an automotive components plant in West Germany, writes Kevin Done, Motor Industry Correspondent.

The plant, at Kaiserslautern, where GM already operates engine and other components plants, will produce more than 400,000 constant velocity joints (CVJs) a year. The facility will be added to an existing CVJ plant at the site.

Saginaw, the GM components subsidiary which will run the plant, produces around 1.8m CVJs a month at plants in North America and West Europe, and in a joint venture in South Korea.

It supplies several rival vehicle makers and claims around 20 per cent of a world market dominated by GKN, the UK engineering group. GKN claims a direct share of around one-third and supplies a further third from joint ventures and licensed operations.

● LINDT & SPRUENGLI, the Swiss chocolate producer, lifted consolidated net earnings 35.4 per cent to SFr16.3m ($10.4m) on an 8.5 per cent increase in turnover to SFr729.9m, writes John Wicks in Zurich.

The parent is to pay an increased dividend of SFr150 per share, up from SFr140.

● SIME DARBY, the diversified Malaysian company, lifted pre-tax profits 69.1 per cent to 226m ringgit (US$82.4m) in the first half to December, Our Financial Staff writes.

Turnover expanded to 1.98bn ringgit from 1.51bn ringgit. A dividend of 5 cents a share is being paid, up from 4 cents, on net earnings per share of 9.9 cents against 6.4 cents.

● BANCO SANTANDER of Spain has been authorised by the US Federal Home Loan Bank Board to buy Puerto Rico's Federal Savings Bank in a deal worth $101.6m, Reuter reports from Madrid.

It said the move would bring its total assets in banking in Puerto Rico to Pta339bn ($2.96bn) with a network of 40 branches.

Tradegro surges by 40% at six months and resumes payout

By **Jim Jones** in Johannesburg

TRADEGRO, South Africa's largest retail and wholesale group, lifted sales by 18 per cent and pre-tax profits by 40 per cent in the six months to December and has resumed dividend payments after a four-year break.

The first half's turnover increased to R3.61bn ($1.44bn) from R3.06bn in the corresponding period of 1987, the interim operating profit before interest and tax rose to R119.1m from R86.6m and pre-tax profit was R94.5m against R67.5m.

In the last full year turnover totalled R6.12bn, the year's operating profit was R166.1m and the pre-tax profit was R131.2m.

Checkers, which is wholly-owned and is the country's largest supermarket chain, lost market share as competitors began trading on Sundays. The supermarket chain's sales rose by 11 per cent, less than the inflation rate, but its margin on sales improved and its interim pre-tax profit was R7m against R3m.

Mr Clive Weil, Checkers' chief executive, says the previously loss-making chain has not yet fully turned the corner. Shrinkage remains a problem, though stock turn has increased and margins have been lifted. Competition between the three main supermarket chains remains intense and Checkers' margins are narrower than those of its two competitors.

Metro, the cash-and-carry wholesale chain, lifted first-half sales to R1.41bn from R1.18bn and pre-tax profit to R22.5m from R18.6m. The largest profit contribution came from Russels, the furniture retail chain, which has benefited from two years of rising spending on consumer durables.

Russels relies heavily on credit sales and is expected to be affected by recent interest rate increases and credit curbs.

Tradegro's net earnings rose to 20.05 cents a share from 14.45 cents and the interim dividend has been restored at 4 cents. Tradegro is controlled by Sanlam, South Africa's second largest life assurer.

Suez increases holding in reshaped Cofide

By **John Wyles** in Rome

COFIDE, Mr Carlo De Benedetti's main financial holding company, is to raise L258.3bn ($190m) through a one-for-eight rights issue, in an operation which will also see Compagnie Financière de Suez of France raising its stake in Cofide from 3.5 to 10 per cent.

The rights issue is part of a restructuring of Mr De Benedetti's holding companies in the wake of disposals and acquisitions over the past year.

He and his brother, Camillo, who together own 62 per cent of Cofide, are committed to underwriting more than half the 43m new shares to be issued, while Suez will increase its stake by purchases in the market and from the company's main shareholders.

In the rights issue, shareholders are to be offered either shares priced at the current market level of L6,000 or five-year Mediobanca-Cofide bonds carrying an 8.5 per cent interest rate.

Warrants would give the holders rights to purchase shares at L6,000 until the end of 1990, and at an adjustable price until 1993.

LVMH tussle moves to court

By **Our Paris Staff**

THE ONGOING struggle for control of Moët Hennessy Louis Vuitton (LVMH), the French luxury goods group, moves from the boardroom to the courtroom today when Mr Bernard Arnault, the chairman, seeks a court injunction designed to end the rearguard challenge to his authority put up by Mr Henry Racamier, president of Louis Vuitton and leader of the Vuitton family shareholding interests.

In a hearing before the Tribunal de Commerce de Paris, Mr Arnault will seek an injunction permitting an extraordinary general meeting of the Louis Vuitton company, so as to replace its current board.

If the tribunal were to rule in his favour, Mr Arnault might be able to remove Mr Racamier from the presidency of Vuitton, not just because LVMH controls 98 per cent of the luggage company but also because Mr Arnault could invoke the legal retirement age of 70 against Mr Racamier, who is already 77.

The struggle is only the latest in a succession of quarrels which has shaken LVMH since the merger of Louis Vuitton and Moët Hennessy in 1987. Last summer the battle between Mr Alain Chevalier, leader of the Moët Hennessy interests, and Mr Racamier for Vuitton led to the entry into the group of Mr Arnault and of Guinness, the British drinks group.

After Mr Arnault acquired a dominant position in LVMH through large share purchases in the stock market at the beginning of this year, Mr Chevalier resigned from the presidency. But Mr Racamier has continued to contest the authority of Mr Arnault.

● Carrefour, the French retail group, lifted 1988 attributable net profit to FFr911m ($146m) from FFr761m and is increasing its dividend by 18.7 per cent to FFr70 a share. In addition, the company is undertaking a one-for-three scrip issue.

Amgold cuts dividend as income dips

By **Jim Jones** in Johannesburg

ANGLO AMERICAN Gold (Amgold), the holding company for the gold interests of South Africa's Anglo American group, again suffered a drop in investment income in the year to February as weakening gold prices affected gold mine revenues.

Investment income fell to R352.4m ($141.2m) from R355.9m and the year's dividend has been cut to R13.50 a share from R14.25.

Amgold holds the controlling shareholdings in mines managed by the group, has a wide spread of investments in mines managed by other South African mining houses, has strategic holdings in its parent company and Gold Fields of South Africa and has interests in Brazilian, Chilean and Spanish gold ventures.

Expenditure on gold prospecting was lifted to R28.7m from R21.2m as exploration activities intensified. In South Africa the main exploration target is the so-called Potchefstroom Cap, an unmined area lying between the Klerksdorp and Far West Rand goldfields.

Power to raise C$100m for new energy offshoot

By **Robert Gibbens** in Montreal

MR PAUL DESMARAIS, the Montreal financier with more than C$1bn (US$836.1m) cash available in his Power Corporation of Canada holding company, intends to raise about C$100m from institutional investors in Canada and abroad for PowerWest Financial, a new energy offshoot.

PowerWest will form several funds to invest in oil and gas companies with financial backing from the Power Corporation group. The unit is a partnership being operated by three Calgary energy consultants and led by Mr Mac van Wielingen as president.

PowerWest may also engineer deals arising from the C$550m in asset sales planned as part of the C$4.9bn takeover of Texaco Canada by Imperial Oil. The three principals have participated in three big capital restructurings in the past year or so.

Mr van Wielingen said Power Corporation could use PowerWest to spot a major energy acquisition. Mr Desmarais has at times indicated he is interested in the energy sector.

Power Corporation recently sold its 40 per cent holding in Consolidated-Bathurst, the big pulp and paper and packaging group, to Stone Container Corporation of Chicago for more than C$1bn before tax. It had used C-B as an energy diversification vehicle several times in the past 15 years with only modest success.

C-B's main energy asset remaining is a natural gas development in northern British Columbia, which goes to Stone as part of the sale of C-B.

Robust lending helps ABN rise 18%

By **Laura Raun** in Amsterdam

ALGEMENE BANK Nederland (ABN), the biggest Dutch bank, has reported an 18 per cent jump in 1988 profits, on robust lending, and lifted its annual dividend modestly.

Net income surged to Fl 611m ($295m) last year, from Fl 517m in 1987, although per-share earnings rose a more moderate 12 per cent, to Fl 5.59 from Fl 4.98. The dividend was raised to Fl 2.80 a share from Fl 2.70.

Mr Robertus Hazelhoff, chairman, described the results as "satisfactory" and hinted that they were the first sign of a "new aggression" in acquisitions, products and services.

He predicted profits would continue to rise in 1989, but conceded that per-share earnings might be diluted if a large acquisition were made.

Overall revenue climbed 9 per cent to Fl 4.6bn in 1988, from Fl 4.2bn the year before, as "other" income soared 50 per cent, fuelled by the bank's own investments.

Loan-loss provisions were held steady at Fl 540m in 1988, unchanged from 1987 on account of the considerably larger loan portfolio.

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Pause in Fed's round of monetary tightening

AFTER THE interest rate dramas of late February, the US credit markets think they are in for a quieter March. Or that is how the markets are reading signals from the world's central banks.

The US Federal Reserve, which pushed the short-term interest rates that it can manipulate up sharply in the last week of February, appears to have called a halt to its current round of monetary tightening.

Last week, the Fed did just enough to keep the rate for Federal funds, which is the most closely watched short market rate, from piercing the 10 per cent barrier. After a rise of three-quarters of a point in the past month, the rate seems to have settled in the 9¾ per cent to 9⅞ per cent range.

The UK and West German central banks did not even match the late-February US tightening, much to the credit markets' surprise. Despite new evidence last week of a widening UK trade deficit, the Bank of England decided not to raise rates but moved instead to support the pound through eager purchases of the currency in the market.

Meanwhile the Bundesbank, for all its well-advertised concern for a kindling of domestic inflation, left both its discount and Lombard rates unchanged at its council meeting on Thursday.

The West German move was particularly unexpected. Many foreign exchange dealers were short of the dollar on Wednesday night and had to cover hurriedly on Thursday. The ensuing dollar rise caused a sharp recovery in long-term bonds, with the Treasury 30-year issue up ¾ point. Even the stock market, which has been badly rattled by the prospect of higher interest rates, rallied.

But the Japanese bond market showed no such optimism. Yen interest rates rose last week to their highest level in half a year for fear that Japan will eventually have to tighten monetary conditions to stamp out inflationary pressures. These fears put a damper on the recovery in Treasuries, which ended the week little changed from the week before.

The US credit markets badly need to know whether evidence of tighter capacity and rising prices in the economy, which came through clearly in the statistics for January, will show up again in the February figures that start being published this week.

Today brings the widely watched National Association of Purchasing Managers survey, which the market expects to show reassuringly little change over January.

More important will be Friday's figure for unemployment in February — so important, indeed, that the credit markets will probably see relatively little trading until they are published. Most corners of the market now believe that the 406,000 jobs created in January was a freakish number in an economy so close to full employment, and had to do with fine weather for building work and other oddities.

Economists such as Mr Philip Braverman of Irving Securities and Mr Allen Sinai of the Boston Company believe that the increase in February will be under 225,000.

However, the firm of McCarthy Crisanti & Maffei forecast that construction employment will remain strong and retail jobs could rise sharply, so that the overall increase could be as high as 300,000. A figure this high would almost certainly send the bond market into a spin, with the stock market following shortly afterwards.

McCarthy Crisanti's is a minority view, but the overall market is far from happy. The Fed has pushed up short-term interest rates by 150 basis points since early December. But so far there has been precious little evidence of anybody changing spending plans in response.

Admittedly, personal spending in January rose by a very small amount (0.1 per cent), but this should not suggest that consumers are tightening their belts. US retailers are recording strong sales gains for February and automobile sales were healthy.

Economists such as Mr Sinai believe that the economy will not show definite signs of slowing until the second half of the year. The credit markets would be perfectly satisfied with this prospect, if only they were more confident about prices. If the 1970s and 1980s taught US bond investors a lesson, it is that quickening inflation is extremely hard to rein in with tighter money and slower activity.

The increase in prices in January, reported as 1 per cent for producer prices and 0.6 per cent for consumer prices, suggest annual rates of inflation so high as probably to be an aberration.

But another measure of inflation, the so-called gross national product deflator, for the last quarter of last year was revised upwards to show annual rates of between 4.2 per cent and 5.3 per cent depending on how the components are weighted.

Salomon Brothers believes that food prices could rise 4 per cent to 6 per cent this year, because world demand is strong and stocks have been depleted because of last year's drought. Oil prices are up on last year, and this year is expected to see a push for wage increases in several full-capacity industries.

James Buchan

Norwegian bank set to woo foreign holders

By Karen Fossli in Oslo

BERGEN BANK, one of Norway's top three banks, is considering an international share issue as one way of increasing foreign ownership of its shares, following official approval for an increase in this quota to 25 per cent of its equity from 20 per cent.

About 18 per cent of Bergen is currently foreign owned, of which about 9.5 per cent is held by three regional partners – Skandinaviska Enskilda Banken, Union Bank of Finland and Privatbanken. The partners recently relinquished an option to boost their shareholding by 6 percentage points.

Bergen's membership in the group, Scandinavian Banking Partners, started in 1984 and includes cross-holdings in shares of the member banks.

The purpose of the co-operation is to offer extended financial services throughout Scandinavia that competitors are unable to provide.

Bergen is planning a one-for-five rights issue to raise about NKr495m.

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	9.50	9.77	9.00	9.77	6.27
Three-month Treasury bills	8.62	8.67	8.47	8.86	6.21
Six-month Treasury bills	8.65	8.71	8.62	9.05	5.72
Three-month prime CDs	9.90	8.90	9.30	9.55	6.77
30-day Commercial Paper	9.85	9.62	9.05	9.62	6.65
90-day Commercial Paper	9.85	9.72	9.10	9.72	6.65

US BOND PRICES AND YIELDS (%)

	Last	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	99¾	unch	9.33	9.45	9.04
20-year Treasury	101⅛	unch	9.22	9.31	8.91
30-year Treasury	97¾	-⅛	9.18	9.18	8.83

Source: Salomon Bros (estimates).

Money supply: In the week ended February 20, M1 rose $6.2bn to $789.5bn

NRI TOKYO BOND INDEX

December 1983 = 100	2/3/89	Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	147.73	4.84	148.29	148.30	142.41
Government Bonds	147.80	4.67	149.64	149.81	144.44
Municipal Bonds	150.16	5.00	150.92	149.81	144.44
Govt.-guaranteed Bonds	152.29	5.04	151.90	150.75	146.09
Bank Debentures	141.50	4.75	141.59	141.39	137.18
Corporate Bonds	148.95	5.40	148.93	147.25	143.88
Yen-denom. Foreign Bonds	153.84	5.41	152.83	150.30	147.27
Government 10-year†	4.96	-	4.87	4.75	5.40

† Estimated par yield. Source: Nomura Research Institute

UK GILTS

Nervy run-up expected to Budget

STERLING managed to weather a most difficult week courtesy of some hefty intervention by the Bank of England and the Bundesbank's decision not to raise official West German interest rates.

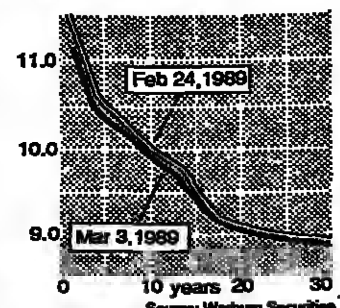
The prospect for the gilts market is for a nervy but probably uneventful run up to next week's Budget. The view around the market was that the pound could probably hold current levels if the Budget is seen as "tight" and offering the consumer little by way of extra spending money.

A possible change in sterling policy – to let it devalue – has, however, appeared to be greeted with equanimity by the the markets; although one who did not see it this way, Mr Glenn Davies at Alexandera, estimates that the fall will add an extra 0.5 per cent to retail inflation by tha end of the year. Most forecasters have a sterling devaluation factored in to their 1989 view of the economy, though most, one suspects, saw it coming later than sooner.

Gone from Mr Nigel Lawson's rhetoric is any threat to raise base rates in the event of a fall in the pound. In its place is the Treasury seeking to find a silver lining to every darkish cloud. The third worst current account figures on record, which it said were erratic and not to be believed, contained, it went on to say, evidence of a slowdown in consumer spending. This left some to admire its gall but question its judgment.

UK gilts yields

Related as par (%)



Source: Warburg Securities

This is seen as a high risk strategy and one that could come unstuck. By appearing to deny himself the use of his only weapon, Mr Lawson was looking a shade defenceless by the week's end. If he is forced by the foreign exchange market to raise interest rates to 14 per cent his stature in the eyes of markets will be diminished.

* * *

Last week's meeting of the Gilt-Edged Market Makers Association usefully raised issues of market knowledge. No more is this an issue when the Bank's buying-in activities meet the futures market.

The gilt-futures contract is a necessary instrument for a functioning modern debt market. But if the stocks which are notionally deliverable are also being covertly bought by the authorities, the stability of the system could be undermined. At delivery date there may not be enough to go around.

For the current June long-gilt contract there are basically three deliverable stocks: 9¼ per cent conversion 2004; 9½ per cent conversion 2005; and 10½ per cent Exchequer 2005. In total, some £4.3bn of deliverable stock, or so the tally of any gilt sheet would suggest. But how does the market know?

The Bank has bought in at least 8 per cent of the long end of the gilt market since last summer. It is possible that the total deliverable stock for the June contract is a lot less than it seems. The point is no one knows, and perhaps for the efficiency of markets they should.

The stock shortage is likely to remain a feature of the market for as long as anyone can confidently look ahead. At the end of January the Bank was "overfunded" to the tune of £7.6bn.

There are two things, however, which mitigate the onerousness of this burden: on February 22, the 11¾ per cent Treasury 1989 was redeemed with an issue size of £2.25bn; and, in March, the Government's accounts always produce a hefty deficit as Whitehall rushes to justify its allocation of public money by making sure all is spent.

The trend rate of growth in tha public sector borrowing requirement in February and March in the years 1984-88 suggests that the PSBR for the same period this year should be around £3.5bn, ie, after allowing for a surplus in February and a large deficit in March. On this basis alone the Bank's buy-in requirement is reduced to around £4bn.

If all the 11¾ per cent Treasury stock redeemed last month was held by the non-M4 sector its buying would be further reduced to just £1.85bn. That, however, will probably prove to be far too optimistic an interpretation. Given the nature of the stock it is not likely that the non-M4 sector owned much of the issue at all and that banks and building societies cash it in at the Bank.

The buy-in requirement is therefore probably much closer to £4bn for the remaining two months of the year, or, indeed, possibly higher if the PSBR estimate is too cautious. The Bank was an active buyer in the market in February, some suggest an amount of about £1.5bn; less so in the first week of March, despite some solid foreign selling, especially from Japan.

The requirement to hit the full-fund target was slightly relaxed by the Chancellor in his Mansion House speech in October. A carry-over would be manageable.

Simon Holberton

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
A.B.N. 8¾ 91	150	96¼	0	10.61
AETNA LIFE & CAS 7¾ 16	200	92¼	+¼	8.48
AHFC O/S FIN 11¼ 94	100	100⅞	-⅛	11.65
ALBERTA PROVINCE 7¾ 91	750	93¼	+¼	10.05
ALBERTA PROVINCE 9¾ 95	600	97⅞	+⅛	9.89
ALCOA AUSTRALIA 11 92	80	99⅝	0	11.10
AMERICAN GENERAL 9¾ 95	100	90⅛	-⅛	10.00
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
PRU. RLTY. SECS. 0 99	365	39½	+¼	9.88
QANTAS AIRWAYS 8⅞ 96	97	92¼	+¼	10.10
QUEBEC PROV 13 90	150	102⅞	-⅛	10.95
QUEENSLAND GOVT 11¾ 89	100	100¼	-⅛	10.87
RALSTON PURINA 11¾ 95	150	103½	0	10.95
REYNOLDS R.J. 10¼ 93	100	93¼	+¼	12.09
RICHARDSON-VICKS 11½ 93	125	102⅞	0	10.79
ROCKWELL INT 9⅞ 90	200	99⅜	0	10.46
S.A.S. 10¼ 95	150	100	+½	10.12
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ONTARIO HYDRO 14¼ 89	150	200¼	-⅛	12.01
ONTARIO HYDRO 13 92	150	112¼	-⅛	10.34
OSTER KONTROLLBANK 8¾ 93	200	93⅝	+¼	10.12
OSTER KONTROLLBANK 9¾ 92	200	97⅞	+¼	9.99
PACIFIC GAS & ELEC 12 00	75	106⅝	+¼	10.92
PENNEY J.C. 12¼ 91	100	101⅛	-⅛	11.82
PEPSICO INC 7⅞ 93	200	89⅞	+⅛	10.45
PEPSICO CAPITAL 8¼ 91	100	96	0	10.40
PETRO-CANADA 7¼ 96	200	86¼	+⅛	10.00
PHILIP MORRIS 9⅝ 98	200	96¼	+¼	10.54
POSTIPANKKI 11¼ 90	75	200¼	+⅛	10.35
PROCTER & GAMBLE 10 95	150	99	-⅛	10.19

	Issued	Bid price	Chg on week	Yield
SOUTHWEST AIRLINES 6¾ 98	35	86	-⅛	[illegible]
TEXACO CAPITAL 11¾ 94	500	105⅝	+¼	[illegible]
YEN STRAIGHTS				
ALLIED-SIGNAL 6¾ 93	20.00N	103⅞	-⅛	5.60
AVON CAPITAL 6¾ 91	20.00N	100⅞	-⅛	6.33
BARCLAYS O/S INV 6 96	40.00N	103¼	-1¼	5.49
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CONVERTIBLE BONDS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FUJITSU 3 04		100	234	-6½	-3.02
GRACE (WR) 6½ 02		150	82⅞	-¼	30.41
GRAND MET 6½ 02		100	92½	+½	16.53
INTL PAPER 5¼ 02		200	88½	-⅞	30.00
LTCB 1½ 02		250	113½	-½	3.84
MCA 5½ 02		100	86¾	+1½	19.36
MITSUBISHI BK 1½ 02		100	126½	-7½	-1.28
NEWMONT MINING 7 02		200	112⅞	-½	8.87
NIPPON ELECTRIC 2⅞ 00		150	272½	-9¼	-2.05
NISHI NIPPON 2⅞ 03		70	124	-6	2.86
PIONEER CONCRETE 9½ 98 A$		175	85	-½	21.33
ROCKEFELLER CENTER 0 00		952	31½	+⅛	-63.95
SANWA BANK 1¼ 02		100	108½	-3¼	-1.82

WARRANTS				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DEN NORSKE CREDIT 8 94	02/03/90	1	—	7.97
DENMARK 12½ 92	31/01/90	55	—	10.43
GEN ELEC CRED 9½ 92 B	17/12/92	9	-1	9.19
GMAC 8½ 95 B	11/02/91	8	—	8.57
HEINZ H.J. 7½ 96	01/10/90	9	0	7.42
NORDIC INV BANK 7⅞ 96	30/10/91	2½	—	7.82
NORDIC INV BANK 8½ 96	27/03/91	3	—	8.30
ROYAL BK CANADA	28/01/90	46	—	10.56
SBC FINANCE 10¼ 90	11/01/90	2	—	10.05

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on MARCH 3

UK COMPANY NEWS

Hays ready to bring forward its flotation

By Ray Bashford

HAYS, the business services group which was bought out by the management in October 1987, is considering a £150m flotation by the spring of next year.

Mr Ronnie Frost, the chief executive who headed the £250m buyout from the Kuwait Investment Office, said a decision on the timing would be made by June and the flotation could take place as early as October.

The company's recent performance has given the directors confidence to bring forward the flotation. Last September they said the issue might not take place for two years.

"We now have a full house of financial advisers, brokers and public relations advisers and we would like to make the flotation at the first chance possible," Mr Frost said.

The Government's decisions on the timing of its major privatisations, particularly water, will have a strong bearing on when the flotation will take place.

A £150m issue would largely cover borrowings of between £170m-£180m, of which £155m was made to fund the buyout.

Hays returned a pre-tax profit of £15.3m for the six months to December 31 on a turnover of £269.2m.

The pre-tax figure is below the comparable half year because it included a full interest charge for the period. The company paid interest for only six weeks of the 1987 period under the present management.

However, the operating profit, excluding the interest charge, advanced 36 per cent to £23.1m and there was a 50 per cent return on capital.

Mr Frost said the three divisions (personnel, commercial and distribution) each made strong contributions to the result.

He said Hays is seeking acquisitions to bolt on to all divisions.

The commercial side, which is the smallest, contributing about 20 per cent of group profits, is seen as having strong potential for growth in its office support and overnight business mail service activities, and acquisitions are being actively sought in this area.

The other divisions each contributed about 40 per cent to the result.

Mr Frost believes that takeovers would be easier after a flotation because funding would be possible through the issue of paper.

Expansion into Europe is being considered through acquisition ahead of 1992.

Southnews buys four newspapers for £1.7m

By Ray Bashford

SOUTHNEWS is making its first acquisition since flotation in May last year through the £1.7m cash purchase of North London & Herts Newspapers, the publisher of paid-for and free local newspapers.

The deal will add four publications to the list of paid-for and free local newspapers and help broaden its geographic spread into areas adjacent to the north-west London base.

NLH was part of the Argus Publishing division of BET until last September when Argus was acquired through a management buyout.

As the result of exceptional bad debt provisions, the disturbance caused by the management buy-out and pressure on advertising revenues, NLH incurred a loss of £463,200 between April 3 and December 31 last year, the Southnews directors said. This compares with a pre-tax profit of £75,834 in the previous 12 months.

Southnews directors believe they can quickly turn around NLH by tightening financial controls and refocussing the marketing stategy.

Southnews was formed in 1986 through a management buy-in of a division of Westminster Press, part of Pearson which publishes the Financial Times.

Plessey gets McKinsey's backing

THE McKINSEY consulting group, which produced a highly critical report on the UK electronics industry only eight months ago, has come out unequivocally in support of Plessey in its takeover battle against General Electric Company and Siemens, writes Terry Dodsworth, Industrial Editor.

In the wake of the Anglo-German bid, McKinsey has agreed to work for Plessey, advising it on general corporate strategy and some aspects of its defensive tactics.

"We made five recommendations in the report, and we think that Plessey is doing many of the things which we said should be done," says Mr Bill Pade, head of McKinsey's European electronics practice.

McKinsey's decision to declare a position during a corporate takeover battle is highly unusual. Management consultants usually go out of their way to maintain their impartiality, and in this case there was a further complication since Siemens is also a McKinsey client in West Germany.

The company's report on the UK electronics industry was fiercely attacked at the time of publication by Sir John Clark, Plessey's chairman, who said that it was "a monstrous travesty of the facts based on massive generalisations." Sir John, however, is now said to be working closely with McKinsey.

In the report, prepared for the National Economic Development Office, McKinsey argued that the British electronics industry was threatened with extinction because of its over-reliance on low-growth areas such as defence and telecommunications. Companies needed to create stronger international organisations, it said, and to give more effective strategic leadership from the centre.

Mr Pade says that over the last year Plessey has begun to act vigorously to redress these weaknesses.

Acting on the prescriptions laid down

Terry Dodsworth on the reasoning behind the consultant's decision

WHEN THE McKinsey consulting group produced its influential report on the UK electronics industry last year, it made soma extremely unpalatable observations.

The big British companies, it said, needed to streamline themselves and to aim for greater size and weight in specific areas of business. They would also have to pursue growth more aggressively in new markets, and they must, above all, become more international. Otherwise, it warned, they were in danger of extinction in a world where competition was becoming global.

Given these views, McKinsey might have been expected to applaud the collaboration deal between the General Electric Company and Siemens, two of Europe's biggest electrical and electronics companies. In bidding for Plessey, the Anglo-German partnership was apparently pursuing the targets of scale and international presence outlined in the industry study.

Yet McKinsey, which has grown into one of the world's leading consulting groups partly by keeping thoughts about its customers to itself, has now come out publicly in support of Plessey. GEC, it says, is going abont its restructuring of the industry in the wrong way. Even worse, McKinsey adds, the GEC/Siemens takeover bid is particularly damaging to the UK industry because it comes at a time when Plessey has shown its determination to act on the prescriptions laid down in its report.

Mr Bill Pade, head of McKinsey's European electronics practice, concedes that he has a position to defend in the argument, since his company has been hired by Plessey to work on its anti-takeover strategy. But he contends that his views centre on the industrial logic of the development plans sketched out recently by the two UK electronics groups.

On the one hand, he says, Plessey has changed quite radically in the past 18 months, particularly since the arrival last year of Mr Stephen Walls, who was recently promoted managing director.

"Plessey has been particularly positive about building its international presence," says Mr Pade. "Under Stephen Walls, it has expanded in the US, particularly in the growth area of avionics, and it has put its telecommunications operations into the joint GPT company with GEC. It has also bought the Ferranti semiconductor business and is beginning an internal reorganisation." All of these points, he adds, respond to the recommendations for reorganising the UK industry made in last year's report. Plessey is pursuing greater scale and mass in the industrial sectors where it sees its future, is tackling the UK industry's components problem, and is seeking to give more strategic direction to its organisational structure.

On the other hand, Mr Pade argues that GEC's recent moves have done very little to tackle the problems of the industry seen from a UK perspective.

In the industry study, prepared for the National Economic Development Office, McKinsey was intent on showing how indigenous British electronics groups could carve out a place for themselves in international markets. Yet GEC's recent initiatives, says Mr Pade, raise large question marks over its ability to command its own future.

Stephen Walls, managing director of Plessey

The issue here is GEC's moves over the last three months to put around 50 per cent of its businesses into joint ventures with Siemens of West Germany, CGE-Alsthom of France, and General Electric of the US. Collaborative projects of this kind, says Mr Pade, are notoriously difficult to operate, and GEC is not approaching them from a position of strength. The problem, ha argues, is twofold. First, joint ventures tend to work best when the two parties bring businesses or knowledge of roughly equal value into the new organisation. GEC is doing this in the CGE-Alsthom deal, but not in its other transactions. "In such circumstances, 'joint venture' often becomes merely a euphemism for 'takeover', with the weaker company merely maintaining a carried interest."

Second, joint ventures work most effectively when there is "somebody clearly and indisputably in charge." This is normally, says Mr Pade, the partner with the strongest international market position and the greatest financial, technical and managerial resources. But GEC is generally smaller than the collaborators it has chosen.

"The likelihood is, therefore, that before very long, GEC could lose de facto management control of the businesses in question to its stronger international partners."

Finally, Mr Pade criticises the structure of the organisations being created by GEC. One of the points emphasised most strongly in last year's NEDO report was the need to move away from tha traditional conglomerate organisation of the big UK electronics groups. The study argued that companies should focus on world class competitiveness in fewer businesses. Yet GEC, says Mr Pade, is still a conglomerate and, if anything, a more complex one than ever before.

Plessey, by contrast, is moving away from its system of running 20-odd businesses in a very devolved manner to one that will establish greater corporate coherence. We shall, no doubt, hear plenty more about this new Plessey in the weeks to come.

Stoddard disposing of silk operation for £8m

By Ray Bashford

STODDARD Sekers International plans to concentrate on development of its core interior furnishing businesses following a management buyout of the silk operations.

Confirming the buyout plan, the directors said the deal would enhance group profitability, reduce the gearing and boost the net asset backing for shares by 3 per cent.

The business is being sold for an estimated £8m cash with £5.4m payable this month, £1.65m after determination of the operation's net asset value and up to £1m over the following five years.

The silk business, which produces mainly ties from imported material, was acquired as the principal asset of Sekers International which was taken over last May in a £16.4m share exchange deal.

Sekers cut into group earnings in the six months to September 30 as it moved into a loss of £100,000 (£800,000 profit).

Mr Gordon Hay, chairman and chief executive of the group and chairman of Sekers before the takeover, has blamed the poor performance on a sharp increase in Chinese silk prices which flowed through shortly after the merger.

Rothschild 2% stake in Dixons

Mr Jacob Rothschild, the British financier, and various associates, have accumulated a stake of about 2 per cent in Dixons, the electrical retailing chain, in recent months. The share stake is likely to lead to speculation that a bid might be made for Dixons.

Dixons confirmed yesterday that "J Rothschild have a number of different holdings under a number of different names". Together these holdings added up to a stake "in the region of 2 per cent or so".

However, Dixons said it had not been in communication with J Rothschild Holdings, whose chairman is Mr Rothschild, and did not know the purpose of the stake-building.

De la Rue wins Dutch order

De La Rue, the security printing company which last month warned of a sharp fall in annual profits, has won an order for a fingerprint recognition system from the Dutch Government.

The company's Printrak subsidiary, which was singled out as a problem area within the warning of reduced profits, has gained the order.

The Dutch order is believed to be worth £2m and follows an order last month for a similar system from the People's Republic of China.

Directors say that Printrak has signed other recent agreements for orders in Belgium and Denmark.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- CALA, Everest Foods, Green [illegible], Interurope Technology, Waterman Partnership, Westfield [illegible]

Finals- Abbott Mead Vickers, [illegible]

FUTURE DATES

Interims-	
GC Flooring & Furnishing	Mar. 10
HTV	Mar. 17
Halstead (James)	Mar. 14
[illegible]	Mar. 15
[illegible]	Mar. 15
Finals-	
[illegible]	Mar. 22
Britannic Assurance	Mar. 22
City & Commercial Inv Tst	Mar. 20
European Home Products	Mar. 20
[illegible]	Mar. 20
Guardian Royal Exchange	Mar. 21
[illegible]	Mar. 14
Wassall	Mar. 15

FT Share Service

The following securities were added to the Share Information Service in Saturday's edition: Acorn Investment Trust (Section: Investment Trusts). CLF Yeoman (Banks, HP). Cassidy Brothers (Industrials). Farepak (Foods). Sheriff Holdings (Buildings). Torex Hire (Buildings).

FINANCIAL TIMES STOCK INDICES

	Mar. 3	Mar. 2	Mar. 1	Feb. 28	Feb. 27	Feb. 24	1988/89 High	1988/89 Low	Since Compilation High	Since Compilation Low
Government Secs	88.39	87.98	87.82	87.86	87.60	88.08	91.43	86.18	127.4	49.18
Fixed Interest	98.94	98.75	98.37	98.57	98.42	98.48	98.94	94.14	105.4	50.53
Ordinary	1697.5	1679.7	1664.1	1650.0	1644.2	1663.4	1714.7	1349.0	1926.2	49.4
Gold mines	171.9	170.3	171.8	172.6	172.0	169.2	312.5	154.7	734.7	43.5
FT-Act All Share	1069.25	1059.75	1051.42	1042.60	1039.40	1050.47	1082.84	870.19	1238.57	61.92
FT-SE 100	2059.2	2039.7	2021.3	2002.4	1996.7	2019.5	2096.2	1694.5	2443.4	986.9

APPOINTMENTS

Guinness Mahon Holdings makes changes

■ GUINNESS MAHON HOLDINGS has made the following appointments. Lord Douro, deputy chairman of GMH, is appointed a director and deputy chairman of its banking subsidiary, Guinness Mahon & Co. Mr Patrick Moorsom is appointed vice chairman of the bank and in addition to his existing duties will have specific responsibility for its overseas subsidiaries: Guinness & Mahon Ltd (Dublin), Guinness Mahon Guernsey and Guinness Mahon (Zurich). Mr Julian Paul is appointed a managing director of the bank with responsibility for its banking, corporate finance and advisory activities. Mr Alan Broughton is appointed a managing director of the bank with responsibility for its treasury operation. Mr Broughton and Mr Peter Ross, chairman of Henderson Crosthwaite Institional Brokers, GMH's institutional agency broker, will be joining the executive committee of GMH.

■ Mr Michael Canon has been appointed a director of SULZER (UK) and head of the new process engineering division.

■ UK PETROLEUM INDUSTRY ASSOCIATION has elected Mr D. Clayman (Esso) as its president. Mr J.R. O'Neil (Mobil) and Dr R.G. Reynolds (Shell) are vice presidents and Mr P.G. Pitchford (Burmah) continues as treasurer. All are managing directors within their respective organisations.

■ GLOBAL ASSET MANAGEMENT has appointed Mr Giles Conway-Gordon, Mr Patrick C. Koerfer and Mr Jeremy Smouha as directors.

■ Mr Michael Mander has been appointed a non-executive director of SOUTHNEWS. He is a non-executive director of Hill Samuel and Thomson Directories and chairman of M.A.I.D. Systems.

■ Mr W.A. Richardson has joined McALPINE HELICOPTERS as technical director. He recently retired as a group captain, Royal Air Force engineering branch.

■ OCEAN TRANSPORT & TRADING has appointed Mr Edward Hope as a deputy chief executive of MSAS Cargo International, Bracknell, its freight forwarding subsidiary. He was group financial director of Group 4 Securitas (International).

■ CUSSINS GREEN PROPERTIES, owned jointly by Cussins Property Group and The Throgmorton Trust, has appointed Mr Gerard Kelly as finance director. He was chief accountant of Rosehaugh.

■ Mr A.C. McCullum has been appointed joint managing director of the North American division of C.T. BOWRING REINSURANCE.

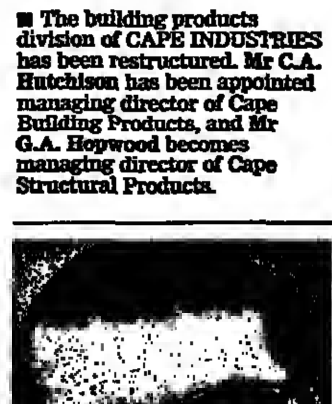
■ Mr Robin Bonham-Carter has been appointed marketing manager at GERRARD VIVIAN GRAY.

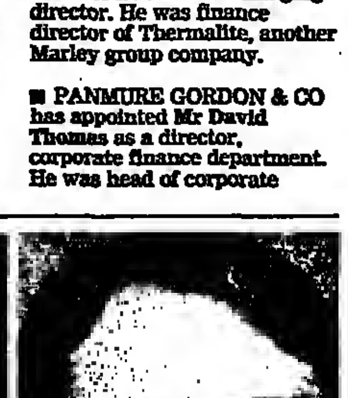
■ AIRPEL FILTRATION, part of the EIS Group, has appointed Mr John Melville as sales director, and Mr Frank Attwood as manufacturing director.

■ The building products division of CAPE INDUSTRIES has been restructured. Mr C.A. Hutchison has been appointed managing director of Cape Building Products, and Mr G.A. Hopwood becomes managing director of Cape Structural Products.

■ THE MARLEY PAVING COMPANY has appointed Mr Michael Roberts as managing director. He was finance director of Thermalite, another Marley group company.

■ PANMURE GORDON & CO has appointed Mr David Thomas as a director, corporate finance department. He was head of corporate finance at W. Greenwell & Co.





Mr C.E. Parker (left) has been appointed an executive director of EAGLE STAR INSURANCE COMPANY from March 31, responsible for the asset management division. He succeeds Mr Nicholas Mountain who is leaving the company. Mr I.M. MacInnes (right), group solicitor, has been appointed managing director of Eagle Star Property Management, and Eagle Star Properties, from March 31. He will succeed Mr Brian Williams, who becomes corporate premises manager from April 3. Mr Williams continues his directorships of Eagle Star subsidiaries involved in agriculture, forestry and house building.

■ Mr Keith Lovelock has been appointed a director of McCARTHY & STONE. He remains managing director of McCarthy & Stone (International). Mr Trevor Green, head of legal services, additionallly becomes company secretary.

■ HTV has appointed Mr John Elfed Jones, chairman of the Welsh Water Authority, as a non-executive director of HTV Cymru/Wales.

■ Mr John Kennedy has been appointed a director and Mr Robert McCarthy becomes an associate of GREENWELL MONTAGU STOCKBROKERS, private client subsidiary of Midland Group. They were associates of Parrish Stockbrokers. Lord Annaly retires at the end of March.

■ At W. & J WHITEHEAD, topmakers and worsted spinners, Mr R.G. Hustler has relinquished the post of chairman. He is succeeded by Mr R.J. Sale, a director since 1987. Mr Neil Whitehead, a director, has become vice-chairman.

■ Mr Barry Goadby and Mr Rajan Uppal have joined the board of the FERRY PICKERING GROUP as sales director and group assistant finance director respectively.

■ CHARLES TAYLOR & CO has appointed Mr Bruce Sturgess as deputy chairman and chief executive. Mr David Shepley-Cuthbert has been appointed finance director.

■ OSSORY ESTATES has made Mr Peter Everest managing director of Ossory Road Estates, its retail development company.

■ Mr Geoff Wakelin has joined the board of LYONS TETLEY as catering and distribution director.

■ Sir William S. Dugdale and Mr Jean Pierre Tardieu have been appointed directors of LEE VALLEY WATER COMPANY. Their appointment follows the recent acquisition of Lee Valley by General Utilities, a UK subsidiary of Compagnie Generale des Eaux. Sir William is chairman of General Utilities and Mr Tardieu is a vice president of CGE.

■ Mr Peter Runciman, the executive chairman of Shanks & McEwan Group, has joined the board of SCOTTISH EASTERN INVESTMENT TRUST.

■ Staffordshire-based WADE POTTERIES has appointed Mr John B. Drinkwater as production director of the newly-established Wade tableware facility at its plant in Northern Ireland. He was operations manager with Royal Worcester Spode.

■ Mr John Craig, a director of N.M. Rothschild & Sons, has been appointed a director of STANDARD CHARTERED.

■ Mr Bob Tippins has joined BIWATER INTERNATIONAL as sales and marketing director.

■ Dr P.D. Dixon, formerly a business manager with ICI Biological Products, has been appointed managing director

■ CHEMEX INTERNATIONAL has appointed Mr Bob Holt to the board. He was director of corporate development at Blue Arrow.

■ Mr Gordon Hird has been appointed an executive director of FEEDEX AGRICULTURAL INDUSTRIES. He is divisional director responsible for feed, pig production, and agricultural services.

FT UNIT TRUST INFORMATION SERVICE

• For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1200)H
80 Holdenhurst Rd, Bournemouth 0345 717373

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
High Income						
American Income	6	46.37	46.37xd	49.60	5.52	40000
Gilts & Fixed Inc	6	112.20	112.20xd	119.10	8.40	40001
High Inc Equity	6	128.80	131.90	140.30	4.24	40002
Worldwide Bond	6	187.40	187.40xd	198.60	4.88	40003
Capital Growth						
American Growth	6	157.80	157.80	168.80	1.30	40004
Asian Pacific	6	82.01	82.01	87.73	1.25	40005
Assets & Earnings	6	158.20	158.20	169.20	2.34	40006
Capital Reserve Acc	0	80.50	83.50	83.51	4.79	40007
Comdty & Energy	6	40.60	95.65xd	102.30	0.00	40008
1992 Enterprise	6	54.08	55.10	58.61	3.07	[illegible]
European Capital	6	77.31	77.31	82.69	0.91	40009
General	6	170.00	170.00xd	181.90	2.47	40010
Japan	6	105.90	107.00	114.60	0.00	40011
Mastertrust	6	79.53	79.53	50.06	1.73	40012
UK Growth Acc	6	196.00	196.00	209.7	1.63	40013
UK Growth Dist	6	131.50	131.50	140.70	2.42	40014
US Emerging Cos	6	46.27	46.07	49.28	0.00	40015
Income & Growth	6	284.20	290.50	309.00	3.07	40016
Ethical	6	47.49	48.65	51.73	2.42	40017

Abtrust Management Ltd (1000)H
10 Queens Terrace, Aberdeen AB9 1QJ 0800 833580

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
American	5¼	43.38	43.38	46.14	1.74	40022
Australian	5¼	22.46	22.46	23.90	2.19	40024
European	5¼	52.05	52.06	55.37	0.00	40025
Extra Income	5	41.72	41.72xd	44.28	5.00	40021
Fund Inv Tst	5	116.7	116.7	124.2	2.02	40000
Do Accum	5	177.9	177.9	189.3	2.02	40101
Gilt & Fixed Inc	5¼	21.27	21.87xd	23.27	10.07	40026
Global Income	5¼	38.93	38.93	41.41	4.47	40027
Income & Growth	5¼	71.80	71.80	76.38	3.77	40029
Japan	5¼	175.4	175.4	186.3	0.01	40031
Nth Amer Inc	5	26.66	26.66	28.30	3.91	40014
Special Situations	5¼	70.74	70.74	75.26	0.43	40032
UK Growth	5	36.25	36.25	38.48	2.55	40182
World Gwth	5	45.24	45.24	48.02	0.47	40030

Formerly Sentinel Funds Management Ltd

GUIDE TO UNIT TRUST PRICING

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Windsor Trust Mngrs Ltd (1200)F

83 Kingsway, London, WC2B 6SD 01-405 8331

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Grs	City-line
Capital & Equity	5	63.48	66.02	70.23	5.76	40399
European	5	57.93	57.97	61.67	0.35	40323
Far Eastern	5	54.14	54.94	58.45	1.72	40304
Growth Inc	5	88.44	91.72	97.57	1.80	40300
Growth Acc	5	88.44	91.72	97.57	1.80	—
Income Inc	5	83.22	84.68	90.08	3.65	40401
Income Acc	5	83.21	84.68	90.08	3.65	—
Property Share	5	54.45	54.95	58.53	1.22	40402
Smaller Co's	5	60.29	63.37	67.42	1.34	40403
Formerly BBC Trust Managers Ltd						
Nth American	5	55.42	55.42	59.26	1.83	40396
International	5	43.28	43.28	46.28	1.46	40718

Wright Seligman Fund Mngrs Ltd (1000)H

11 Blomfield St, London EC2M 7AY 01-588 0592

Growth	5	92.17	92.17	96.17	3.92	40404

Weekly dealing day Tuesday

The Yorkshire Unit Tst Mngrs Ltd (1100)F

Woodsome Pk, Fenay Bridge, Huddersfield 0484 602250

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd

Cent. Bd. of Fin. of Church of England

2 Fore Street, London EC2Y 5AQ 01-588 1815

Inv Fund Feb 28	485.80		4.88	40251
Fxd Int Sec Feb 28	142.56		10.03	40252
Deposit Feb 28	100.00		12.56	40253

Charities Official Invest. Fund

2 Fore Street, London EC2Y 5AQ 01-588 1815

Income Feb 28	460.59		5.06	40258

Edinburgh Fund Mngrs PLC

Fidelity Investment Services Ltd

Robert Fleming Asset Mngmt Ltd

Foreign & Colonial Pens Mngt Ltd

Funds in Court

Henderson Unit Trust Management Ltd

Lazard Investors Ltd

Local Authorities Mutual Invest. Tst.

MIM Ltd

Morgan Grenfell Inv Mngmt Ltd

Murray Johnstone UT Mngmt

New Court Property Fund Managers

Phillips & Drew Fund Management Ltd

J. Rothschild Fund Managers Ltd

INSURANCES

AA Friendly Society

Abbey Life Assurance Co Ltd

Abtrust Management Ltd

AEtna Life Insurance Co Ltd

Albany Life Assurance Co Ltd

Allied Dunbar Assurance Plc

Allied Dunbar Ctr, Swindon SN1 1EL 0793 514514

	Bid Price	Offer Price	Yield Gross	City-line
Fixed Int. Dep. Acc	256.5	270.0	—	41723
Equity Acc	807.8	850.4	—	41724
Property Acc	482.5	507.9	—	41725
Far East Acc	198.8	209.3	—	41726
European Acc	20.1	21.2	—	41727
Managed Acc	640.0	673.7	—	41728
Managed Cap	364.7	383.9	—	41729
O'seas Earnings Acc	542.4	571.0	—	41730
Gilt Edged Acc	315.4	332.0	—	41731
American Equity Acc	399.8	420.9	—	41732
American Man. Acc	186.8	196.7	—	41733
American Prop Acc	137.8	144.5	—	41734

Amersham Life Assce. Co Ltd

American Life Insurance Co UK

Avon Insurance Plc

Barclays Life Assur. Co Ltd

Black Horse Life Ass. Co Ltd

CCL Assurance Ltd

Canada Life Group

Cannon Assurance Ltd

Citicorp British National

City of Edinburgh Life Assurance

City of Westminster Assurance

Clerical Medical/Fidelity International

Clerical Medical Investments Group

Clerical Medical Managed Funds Ltd

Colonial Mutual Group

Combined Insurance Co of America

Commercial Union Group

Cornhill Insurance PLC

Criterion Assurance Group

Crown Financial Management Ltd

Crusader Insurance Plc

Devonshire Life

Eagle Star Insur./Midland Assur.

Economic Insurance Company Ltd

Edinburgh Money Management Ltd

Equitable Life Assurance Society

Equity & Law

FS Assurance Limited

Family Assurance Society

Friendly Insurance Limited

Friends' Provident

GT Management Ltd

General Accident Linked Life Assce(s)

General Portfolio Life Insce Plc

Assicurazioni GENERALI SpA

Gresham Unit Assurance Ltd

The LAS Group

Growth & Sec. Life Assce. Soc. Ltd

Guardian Royal Exchange

Hearts of Oak Insurance Group

Henderson Administration

Hill Samuel Life Assur. Ltd

Homeowners Friendly Society

Ideal Insurance Co Ltd

Interlife Assurance Co Ltd

Irish Life Assurance Co Plc

Lancashire & Yorkshire Assce Society

Laurentian Life plc

Legal & General (Unit Assur) Ltd

Legal & General (Unit Pensions) Ltd

Liberty Life Assurance Co Ltd

London A'dean & Nthn. Mtl. Assur. Ltd

London Indemnity & Gnl. Ins. Co Ltd

London Life

London & Manchester Group

M & G Life and M & G Pensions

MGM Assurance

Manufacturers Life Insurance Co (UK)

Merchant Investors Assurance Co Ltd

Midland Life Limited

Municipal Life Limited

NEL Britannia Assce Co Ltd

NEL Pensions Ltd

NM Schroder Life Assurance Ltd

National Financial Management Corp PLC

National Mutual Life

National Provident Institution

Norwich Union Asset Management Ltd

Norwich Union Life Insurance Soc.

Pearl Assurance (Unit Funds) Ltd

Phoenix Assurance Co Ltd

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

• For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

	Bid Price	Offer Price	Yield Gross	City-line
Pioneer Mutual Insurance Co Ltd				
16 Crosby Rd, N. Waterloo, Liverpool 051-928 6655				
Managed Fund	281.9	296.K	–	43272
Max Pens Inc & Cap Fds	365.7	385.0	–	43273
Money Fund	117.4	123.6	–	43274
Pens Mngd Fd (Unit)	97.6	102.9	–	43275
Pens Mngd Fd (Acc)	116.3	122.5	–	43276
Pens FT30 Fd (Unit)	138.5	145.8	–	43277
Pens FT30 Fd (Acc)	165.0	173.7	–	43278
Pens O'seas MgFd(Unit)	70.1	73.8	–	43279
Pens O'seas MgFd(Acc)	83.6	88.0	–	43280
Pens Fxd Int Fd (Unit)	104.5	110.0	–	43281
Pens Fxd Int Fd (Acc)	124.6	131.2	–	43282
Pens Deposit Fd (Unit)	103.5	109.0	–	43283
Pens Deposit Fd (Acc)	123.4	129.9	–	43284
Premium Life Assurance Co Ltd				
37-39, Perrymount Road, Haywards Heath 0444 458721				
American	106.0	112.0	–	43285
Building Soc. Fd	168.0	177.0	–	43286
Balanced	273.0	288.0	–	43287
Deposit	168.0	177.0	–	43288
European	153.0	161.0	–	43289
GT Managed	172.0	182.0	–	43290
Gartmore Mngd	111.0	117.0	–	43291
German	104.0	110.0	–	43292
Gilt	174.0	184.0	–	43293
Global	48.0	51.0	–	–
High Inc	114.0	120.0	–	43294
International Equity	178.0	188.0	–	43295
Japan	237.0	250.0	–	43296
Managed	62.0	66.0	–	43297
Property	276.0	291.0	–	43298
R. W. Imperial Gold	130.0	137.0	–	43299
UK Equity	371.0	391.0	–	43300
Pension Funds				
American	130.0	137.0	–	43301
Building Soc. Fd	165.0	174.0	–	43302
Balanced	210.0	222.0	–	43303

	Bid Price	Offer Price	Yield Gross	City-line
Prudential Holborn Pensions Ltd				
30 Old Burlington St, London W1X 1LB 01-439 5134				
Managed	532.9	561.0	–	43524
Equity	772.2	813.4	–	43525
Global Equity	216.6	228.0	–	43526
Fixed Interest	400.1	421.2	–	43527
Property	375.6	395.4	–	43528
Cash	151.2	159.2	–	43529
Index Linked Gilt	195.3	205.6	–	43530
Guaranteed	11.95		–	43531
International Money	195.9	206.3	–	43532
North American	58.4	61.5	–	43533
Japanese	136.6	143.8	–	43534
European	74.9	84.2	–	43535
Special Situations	116.3	122.5	–	43536
Communications	92.7	97.6	–	43537
Smaller Companies	107.1	112.8	–	43538
International Small Cos	116.1	122.5	–	46559
Prudential Pensions Limited				
Holborn Bars, London EC1N 2NH 01-405 9222				
Discretionary Mar 1	£144.33	149.36	–	43539
Equity Mar 1	£157.63	163.49	–	43540
International Mar 1	£23.30	24.09	–	43541
Intl Bond Mar 1	£11.03	11.19	–	43542
Fixed Int Mar 1	£71.28	72.22	–	43543
Index Linked Mar 1	£59.94	60.70	–	43544
Property Mar 1	£104.13	110.41	–	43545
Cash Mar 1	£20.1738	20.1738	–	43546
Pre-Linked Retirement Plan				
Managed Mar 1	357.5	372.4	–	43547
Cash Mar 1	189.0	197.0	–	43548
Prudential Pensions Investment Account				
Pens Mngd Mar 3	147.7	155.5	–	43549
Pens UK Eq Mar 3	281.5	296.4	–	43550
Pens Intl Mar 3	168.4	177.3	–	43551
Pens Fixed Mar 3	163.7	172.4	–	43552

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

GUERNSEY (**)

JERSEY (SIB RECOGNISED)

SWITZERLAND (SIB RECOGNISED)

BERMUDA AUTHORISED

IoM (SIB RECOGNISED)

JERSEY (**)

FT UNIT TRUST INFORMATION SERVICE

LUXEMBOURG (**)

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

ISLE OF MAN (**)

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	Cty-Line
855	Treas 9½pc Cnv 1989	99[illegible]	12.39	12.9	19Oct 19Apr	1348
500	Treas 3pc 1989	98[illegible]	10.12	10.10	15Sep 15Mar	1327
1,400	Treas 10½pc 1989	99[illegible]	12.50	7.11	14Dec 14Jun	1287
2,400	Exch 10pc 1989	99[illegible]	12.42	28.12	1Feb 1Aug	1250
2,000	Exch 11pc 1989	99[illegible]	12.42	20.2	25Mar 25Sep	1256
601	Treas 5pc 1986-89	96[illegible]	10.34	8.9	13Apr 13Oct	1329
174	Exch 10¼pc Cv '89	99[illegible]	11.00	10.10	15May 15Nov	1255
1,000	Treas 13pc 1990	100[illegible]	11.60	9.12	15Jul 15Jan	1300
1,400	Exch 11pc 1990	99[illegible]	11.63	6.1	12Aug 12Feb	1257
1,250	Exch. 12¼pc 1990	[illegible]	11.67	13.2	22Sep 22Mar	1262
550	Treas. 3pc 1990	92[illegible]	9.57	3.10	8Nov 8May	1325
600	Treas 3½pc 1987-90	96[illegible]	11.37	8.11	15Dec 15Jun	1340
955	Treas. 8pc Cv 1990	97[illegible]	9.79	12.12	[illegible]	4080
1,837	Treas. 10pc Cv 1990	97[illegible]	11.15	19.9	25Apr 25Oct	1285
500	Exch 2½pc 1990	89[illegible]	9.13	17.10	22May 22Nov	1270
2,200	Treas 11¾pc 1991	100[illegible]	11.28	5.12	10Jan 10Jul	1292
400	Funding 5¾pc '87-91	91[illegible]	[illegible]	1.3	5Oct 5Apr	1275
400	Treas. 3pc 1991	88[illegible]	9.25	7.10	11Nov 11May	1326
646	Treas 10pc Cv '91	98[illegible]	10.57	6.12	12Jan 12Jul	1286
1,550	Exch. 11pc 1991	100[illegible]	10.92	19.9	23Apr 23Oct	1258
1,350	Treas. 8pc 1991	93[illegible]	10.87	3.11	[illegible]	1335
900	Treas 12¾pc 1992	105[illegible]	10.63	16.12	22Jan 22Jul	1297
1,600	Treas 10pc 1992	98[illegible]	10.67	16.1	21Aug 21Feb	1286
1,400	Treas. 8pc 1992	93[illegible]	10.68	6.9	13Oct 13Apr	1337
1,288	Treas 10½pc Cv 1992	99[illegible]	10.61	3.10	7Nov 7May	1289
500	Treas. 3pc 1992	84[illegible]	8.60	4.11	11Dec 11Jun	1328
1,350	Exch. 12¾pc '92	104[illegible]	10.65	19.1	25Feb 25Aug	1265
1,757	Exch 13½pc 1992	106[illegible]	10.55	13.2	22Mar 22Sep	1266
950	Treas 8¾pc 1993	92[illegible]	10.46	17.1	18Aug 18Feb	–
1,850	Treas 10pc 1993	98[illegible]	10.33	8.9	15Oct 15Apr	1279
1,100	Treas 12½pc 1993	107[illegible]	10.40	8.12	14Jul 14Jan	1296
600	Funding 6pc 1993	87[illegible]	9.63	6.2	15Mar 15Sep	1276
1,250	Treas 13¾pc 1993	112[illegible]	10.38	17.10	23May 23Nov	1304
2,050	Treas. 8½pc 1994	92[illegible]	10.35	28.12	3Aug 3Feb	–
600	Treas 14½pc 1994	116[illegible]	10.29	23.1	1Sep 1Mar	1307

Five to Fifteen Years

Over Fifteen Years

BRITISH FUNDS—Contd

Undated

Index-Linked

**Prospective real redemption rate on projected inflation of 5%. (b) Figures in parentheses show RPI base month for indexing. (i.e. 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for June 1988: 106.6 and for January 1989: 111.0

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

LONDON SHARE SERVICE

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CANADIANS

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
–	♥ABM Gold Corp ‖	146p	–	–	–	–	–
–	♥Abbot Energy Corp	17p	–	–	–	–	–
727.2	♥Amer. Barrick Res.	12¾	–	–	–	–	–
–	♥Amer. Lightwave ‖	2¼p	–	–	–	–	–
–	♥Armeno	19p	–	–	–	–	–
–	♥Asiamerica ‖	186p	–	–	–	–	–
–	♥Augmitto Expln	24¼p	–	–	–	–	–
1,436.0	Bk. Montreal ‖	13⅛	$2.12	7.4	8.8	Fb My Ag Nv	–
1,179.3	Bk. Nova Scot. ‖	711p	84c	5.7	28.9	Ja Ap Ju Oc	–
4,983.5	BCE ‖	18½xd	$2.44	6.3	6.6	Ap Jy Oc Ja	–
292.0	♥Bow Valley‖	705p	♦40c	2.7	15.12	May Nov.	–
908.1	♥Brascan‖	13¼	88c	3.2	28.10	Ja Ap Jy Dc	–
45.3	♥Breakwater Res.	282p	10c	2.4	–	–	–
1,956.3	Can.Imp Bank‖	12¼	$1.16	4.5	29.6	Fe My Au No	–
1,362.7	Can. Pacific ‖	11⅛	76c	5.3	28.9	July Jan.	–
18.0	Do. 4pc Deb £100.	38½xd	4%	10.4	24.11	July Jan	2051
–	Central Capital "A" ‖	487p	–	–	–	–	–
–	♥Corona Corp.	438p	–	–	–	–	–
51.2	♥Cons TVX Min.	316p	–	–	–	–	–
–	♥Danbus Mem. Syst.‖	23¼p	–	–	–	–	–
–	♥Derlan Inds. ‖	620p	11.75c	0.9	5.6	Mr Je Se De	–
858.1	♥Echo Bay Mines	986p	$0.07	0.4	–	June Dec	–
–	♥ECD Corp ‖	438p	–	–	–	–	–
–	♥Energex Minerals‡	10¼p	–	–	–	–	–
65.9	♥Galactic Resources	221p	–	–	–	–	–
257.3	Gandalf Techs. Inc.	294p	–	–	–	–	5088
5.18	♥Geodome Res.	39p	–	–	–	–	–
35.5	Granges Expln‖	163p	–	–	–	–	–
–	♥Gt. Pacific Res.	24¼p	–	–	–	–	–
–	♥Gulf Canada‖	785p	52c	3.5	26.3	Ja Ap Jy Dc	–
97.3	♥Hawker Sid Can‖	11⅛	$1.08	4.3	15.11	Ap Jy Oc Ja	–
–	♥Henlys Group	438p	–	–	–	–	–
358.4	♥Hudson's Bay ‖	12	60c	2.4	2.10	Mr Je Sp Dc	–
3,901.7	♥Imperial Oil‖	24¼	$1.80	3.6	26.11	Mr Je Se De	–
1,892.1	Inco‖	17⅞	s$0.80	2.5	2.11	Jan Ag J.O.	–
–	♥Inland Nat. Gas $1	638p	60c	4.5	30.12	Fe My Au No	–
7.90	♥Madeleine Mines	135p	–	–	–	–	–
–	♥Muscocho Expln	178p	–	–	–	–	–
–	♥Mitel Business Syst.‖	54¼p	–	–	–	–	–
–	♥Nevada Goldfields	116p	–	–	–	–	–
490.4	♥Rio Algom	11¼	$1.30	5.4	5.11	June Dec	–
2,639.7	Royal Bk. Can. ‖	18⅛	$2.20	5.8	19.10	Mr Je Se De	–
3,488.5	Seagram‖	[illegible]	US$1.40	2.0	28.2	Se De Mr Ju	–
–	♥Sonora Gold Corp‖	[illegible]	–	–	–	–	–
–	♥Spiral Eng ‖	[illegible]	–	–	–	–	–
–	♥Tara Pure Tech. Corp‖	[illegible]	–	–	–	–	–
2,689.9	Toronto-Dom. Bk.‖	[illegible]	$1.12	2.9	22.12	F My Au No	–
900.9	♥Trans Can Pipe	[illegible]	68c	4.5	1.12	Ja Ap Jy Dc	–
273.2	Varity Corp‖	[illegible]	B–	–	11.77	–	–

BANKS, HP & LEASING

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
2,166.4	ANZ $A1	259	♦Q34½c	6.1	9.1	Feb July	[illegible]
786.9	Allied Irish	287	FQ29%	5.3	28.11	Dec July	[illegible]
1,226.6	Algemene Fl.10	£113⅛	Q27%	6.4	23.0	Aug May	[illegible]
13.9	Anglo Irish	70	Q9.8%	6.5	28.11	June Dec	[illegible]
145.0	Ansbacher (H.) 1p.	78	2.0	3.5	21.3	April	[illegible]
695.4	B'caire Cie Fr100	£49½	Q10%	1.9	9.5	May	[illegible]
2,670.5	Banco Bilbao Viz.	£48¾	Q35.7%	5.0	9.12	Dec June	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INDUSTRIALS (Miscel.) – Contd.

INSURANCES

LEISURE

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LEISURE—Contd

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES—Contd

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND—Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES—Contd

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

NOTES

Stock Exchange dealing classifications are indicated to the right of security names. α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♠ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- ₽ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- ¶ Forecast dividend.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs. ■ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency

Albany Inv 20p γ	84	+3	Arnotts	425	.....
Craig & Rose £1 γ	730		Carroll (P.J.) γ	255	+3
Finlay Pkg 5p γ	93	.....	Hall (R & H.)	160xd	-8
Holt (Jos) 25p γ	3235	.....	Heiton Hldgs. γ	74	+2
IRISH			Irish Ropes	185	.....
Cap. 8½% Ln 1991	£99½	.....			
9pc Cap Ln 1996	£100½	.....			
Fin 13% 97/02	£121	.....			

TRADITIONAL OPTIONS
3-month call rates

Industrials	p
Allied-Lyons	40
Amstrad	18
BAT	40
BOC Grp.	36
BSR	7½
BTR	26
Barclays	34
Beecham	40
Blue Circle	39
Boots	20
Bowaters	38
Brit Aerospace	42
Brit. Telecom	21
Burton Ord	18
Cadburys	32
Charter Cons.	45
Comm Union	28
Courtaulds	26
FKI Babcock	13
FNFC	21
Gen Accident	71
GEC	13
Glaxo	98
Grand Met	30
GUS 'A'	90
Guardian	16
GKN	28
Hanson	12
Hawker Sidd.	48
ICI	85
Jaguar	22
Ladbroke	38
Legal & Gen.	26
Lex Service	34
Lloyds Bank	29
Lucas Inds.	48
Marks & Spencer	15
Midland Bk.	35
Morgan Grenfell	28
NEI	12
Nat West Bk.	43
P & O Dfd	48
Plessey	15
Polly Peck	28
Racal Elect	25
RHM	32
Rank Org Ord	63
Reed Intnl	38
STC	24
Sears	13
TI	32
TSB	9
Tesco	12
Thorn EMI	55
Trust Houses	24
T&N	14
Unilever	42
Vickers	15
Wellcome	42

Property	
Brit Land	38
Land Securities	52
MEPC	50

Oils	
Brit Petroleum	21
Do. (P.Pd)	12
Burmah Oil	48
Calor	35
Charterhall	2½
Premier	4
Shell	85
Ultramar	11

Mines	
Cons Gold	100
Lonrho	38
RTZ	48

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CURRENCIES, MONEY AND CAPITAL MARKETS

CURRENCIES AND MONEY REVIEW

Italy and Denmark face EMS decision

EVENTS LAST week may have brought a realignment of the European Monetary System a little nearer. A rise of 1 point to 13.5 per cent in the Italian discount rate was made with an eye on domestic rather than international factors, but along with Denmark Italy could soon be forced to accept it cannot keep pace with the stronger currencies.

One factor preventing a realignment of the system appears to be fading, and that is French reluctance to devalue the franc against the D-Mark. The reason is not that the French are now willing to devalue, but because the franc appears to be moving into the hard currency EMS block and is increasingly able to keep up with the D-Mark. Early last week, when speculation was rising about higher German interest rates, the franc held virtually unmoved against the D-Mark.

This was even against the background of higher French inflation. On Monday it was announced that consumer prices in January rose at a year-on-year rate of 3.3 per cent. This compared with market forecasts of around 3.0 per cent, and a figure for December of 3.1 per cent.

The news was a little disappointing, prompting warnings about rising hourly wage rates and early signs of overheating in the economy, but in general the markets were prepared to accept the reassurances of Mr Pierre Beregovoy, the French Finance Minister.

He said it was an historic result that French inflation was in sight of German levels, and that the Government's target of 2.2 per inflation was achievable. It was also announced last week that German year-on-year consumer prices rose an unchanged 2.6 per cent in February.

After the Bundesbank council kept interest rates unchanged last Thursday Mr Helmut Schlesinger, Bundesbank vice president, said there was no need to dramatise inflation levels by raising interest rates. He added that the strength of the D-Mark was another reason for leaving rates unchanged. The latter will be of particular concern to the other members of the EMS.

Nevertheless, Mr Chris Tinker, economist at Phillips & Drew, said: "It is difficult to see the French wishing to associate themselves with the weaker members of the EMS and should the participants take the opportunity to realign, at the time of the European Currency Unit reweightings, the risk must be that the French match the Germans."

The deadline for a reweighted ECU to come into effect is September, but according to Mr Brandan Brown, economist at Mitsubishi Finance International, it is probable the EC Commission will announce new weightings of the component currencies in the early summer.

The most likely countries to take the opportunity to realign against the D-Mark are Italy and Denmark. On Friday the lira and the krone shared weakest position within the EMS.

Last week was not a particularly impressive one for the Italian economy. It was announced that annual inflation rose at a rate of 6.3 per cent in February, compared with 5.7 per cent in January. On Friday, shortly before the Bank of Italy said it was to increase its discount rate, news came that the Italian trade deficit in January rose to a record L4,289bn (£1.8bn), which was over four times the December shortfall of L990bn.

The main pressure for a realignment of the EMS is likely to come from Denmark however. The Danes have not followed the rising trend in European interest rates, and Mr Tinker, at Phillips and Drew, believes domestic economic reasons will make Denmark opt for devaluation rather than tighter monetary policy.

Colin Millham

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	FRIDAY MARCH 3 1989					THURSDAY MARCH 2 1989			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	% Change Since Dec.30 88	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1988/89 High	1988/89 Low	Year ago (approx)
Australia (89)	138.63	-4.1	119.26	113.39	4.79	136.06	116.97	112.32	157.12	91.16	104.77
Austria (18)	101.84	+6.1	87.60	97.34	2.59	100.79	86.66	96.59	101.84	83.72	88.04
Belgium (63)	132.60	-1.9	114.07	126.71	4.09	130.88	112.52	125.23	139.89	99.14	133.20
Canada (125)	133.09	+6.0	114.49	115.26	3.32	132.64	114.03	114.63	137.27	107.06	118.39
Denmark (39)	167.12	-1.9	143.76	162.86	1.85	166.27	142.95	162.26	180.38	111.42	120.46
Finland (26)	143.66	+9.8	123.58	129.67	1.40	142.86	122.82	128.83	147.07	106.78	116.33
France (130)	115.68	+0.6	99.51	113.51	2.86	113.90	97.92	111.85	119.98	72.77	85.64
West Germany (102)	85.73	-2.5	73.75	82.03	2.29	84.40	72.56	80.78	90.40	67.78	77.53
Hong Kong (44)	128.79	+15.2	110.79	128.99	3.72	126.71	108.94	126.89	133.77	84.90	95.89
Ireland (17)	143.41	+8.8	123.36	139.69	3.68	141.42	121.58	137.95	146.46	104.60	116.84
Italy (98)	80.48	-5.5	69.23	81.71	2.47	79.48	68.33	80.59	86.88	62.99	73.51
Japan (456)	193.50	+1.0	166.45	156.19	0.48	193.35	166.22	156.31	200.11	133.61	162.97
Malaysia (36)	154.81	+7.9	133.17	163.60	2.64	154.26	132.62	162.90	159.79	107.83	115.60
Mexico (13)	155.17	-4.1	133.48	398.69	1.28	157.34	135.27	399.11	182.24	90.07	176.54
Netherland (39)	113.61	+1.1	97.73	107.70	4.61	112.41	96.64	106.59	115.04	95.23	103.42
New Zealand (24)	71.72	+6.1	61.70	61.63	6.28	71.08	61.11	60.93	84.05	63.32	71.38
Norway (26)	172.41	+24.1	148.32	157.38	2.00	167.56	144.06	153.12	172.41	98.55	111.81
Singapore (26)	140.31	+12.2	120.70	124.89	2.13	137.79	118.46	122.74	143.62	97.32	108.63
South Africa (60)	129.57	+10.9	111.46	113.07	4.23	126.73	108.95	111.93	139.07	98.26	124.81
Spain (42)	144.22	-2.8	124.06	125.32	3.85	143.36	123.25	125.17	164.47	130.73	143.21
Sweden (35)	153.94	+6.5	132.42	144.03	2.18	152.83	131.39	143.04	154.80	96.92	113.85
Switzerland (57)	76.17	-2.4	65.53	74.35	2.32	75.22	64.67	73.42	86.75	74.13	84.25
United Kingdom (314)	148.35	+9.6	127.62	127.61	4.32	147.11	126.48	126.48	152.54	120.66	134.59
USA (568)	118.63	+4.8	102.05	118.63	3.65	118.17	101.59	118.17	121.90	99.19	109.07
Europe (1006)	118.64	+3.4	102.06	108.43	3.54	117.36	100.90	107.27	120.88	97.01	106.54
Nordic (126)	146.96	+5.2	126.42	142.89	1.96	145.73	125.29	141.79	149.28	95.22	107.57
Pacific Basin (675)	188.51	+1.2	162.16	153.03	0.68	188.20	161.80	153.04	194.72	130.81	158.05
Euro-Pacific (1681)	160.56	+1.8	138.11	135.28	1.54	159.85	137.43	134.85	164.22	120.36	137.46
North America (693)	119.40	+4.9	102.71	118.45	3.63	118.93	102.25	117.98	122.71	99.78	109.57
Europe Ex. UK (692)	100.29	-1.3	86.27	96.52	2.90	98.99	85.11	95.33	103.11	80.28	89.13
Pacific Ex. Japan (219)	128.85	+3.4	110.84	113.14	4.29	126.69	108.91	111.77	137.65	87.51	98.75
World Ex. US (1879)	159.29	+2.0	137.02	134.52	1.62	158.57	136.33	134.08	162.77	120.26	136.70
World Ex. UK (2133)	143.18	+2.2	123.17	129.30	2.01	142.62	122.61	128.92	146.04	111.77	125.18
World Ex. So. Af. (2387)	143.71	+2.8	123.62	129.24	2.21	143.10	123.03	128.80	146.65	113.26	126.01
World Ex. Japan (1991)	119.65	+4.3	102.93	114.98	3.63	118.79	102.13	114.19	122.37	100.00	108.29
The World Index (2447)	143.62	+2.8	123.55	129.13	2.23	143.00	122.94	128.68	146.51	113.37	126.01

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

CONSTITUENT CHANGE: Feb. 27, name change: Gcermoc to Femsa (Mexico).

£ IN NEW YORK

CURRENCY RATES

CURRENCY MOVEMENTS

OTHER CURRENCIES

STERLING INDEX

EURO-CURRENCY INTEREST RATES

EXCHANGE CROSS RATES

POUND SPOT- FORWARD AGAINST THE POUND

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

EUROPEAN OPTIONS EXCHANGE

Series		May 89 Vol	May 89 Last	Aug. 89 Vol	Aug. 89 Last	Nov. 89 Vol	Nov. 89 Last	Stock
GOLD C	$420	79	2.70	46	9.50	–	–	$387.30
GOLD P	$390	73	9 A	11	12	–	–	$387.30

TOTAL VOLUME IN CONTRACTS: 40,651

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

	%		%		%
ABN Bank	13	City Merchants Bank	13	Mount Banking Corp.	13
Adam & Company	13	Clydesdale Bank	13	Nat Bk. of Kuwait	13
AAB - Allied Arab Bk	13	Comm. Bk. N. East	13	NatWestminster	13
Allied Irish Bank	13	Co-operative Bank	*13	Northern Bank Ltd	13
● Henry Ansbacher	13	Coutts & Co	13	Norwich Gen. Trust	13
ANZ Banking Group	13	Cyprus Popular Bk	13	PRIVATbanken Limited	13

JOTTER PAD

MONEY MARKETS

Waiting for Bundesbank leads to confusion

The Bank of England has three obvious opportunities a day to signal higher bank base rates in London, while the West German Bundesbank has only one obvious opportunity every two weeks.

A UK rate rise can be engineered when by the Bank of England buys bills from the market two or three times a day, or the discount houses can be invited to use their borrowing facilities with the central bank, at a new rate.

To change German interest rates normally requires agreement at the fortnightly meetings of the Bundesbank council. This wait for the council to meet last Thursday caused more than a little confusion.

West German banks forced up the level of short term money and then were surprised when the Bundesbank refused to follow the move with a higher Lombard rate.

Lombard financing is available at a supposedly penal rate. This is meant as a last resort, at times when money is in short supply in the market, but last week, before the council meeting, overnight money rose to a level where it was cheaper to borrow funds at the 6 per cent Lombard rate.

Lombard borrowing last Wednesday rose to the very high level of DM17.9bn, as banks convinced themselves they were getting money cheaply, because the Lombard rate was about to rise to 6.5 per cent.

UK clearing bank base lending rate 13 per cent from November 25

The Bundesbank sent signals to calm ruffled nerves, by supplying extra liquidity, via securities repurchase agreements, but with no minimum bid rate. The one signal the market might not have ignored was a tender at a fixed price of 6 per cent or less.

MONEY RATES

LONDON MONEY RATES

FT LONDON INTERBANK FIXING

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

LONDON RECENT ISSUES

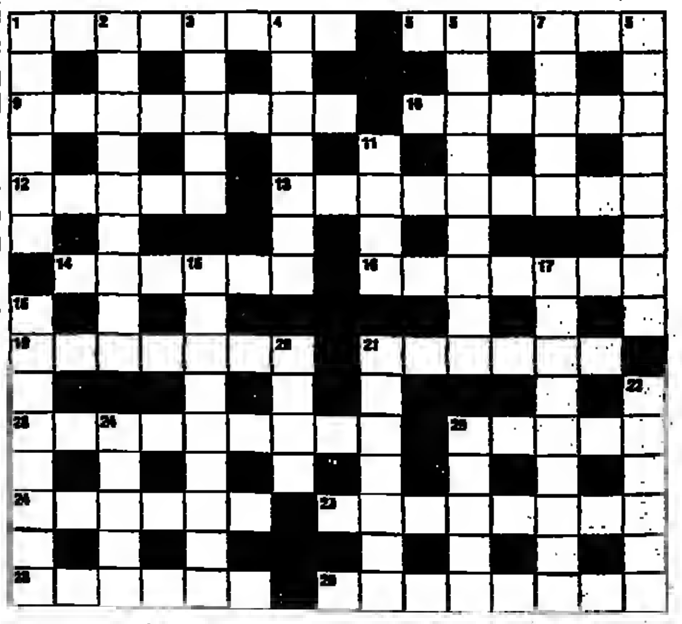
EQUITIES

FIXED INTEREST STOCKS

RIGHTS OFFERS

CROSSWORD

No.6,877 Set by DANTE



ACROSS

1 Interchanged a spot dance, by design? (5-3)
5 Suggested by a low fellow? (6)
9 Hamper holding spare garments (8)
10 Verne's novel flower (6)
12 Goes out of play (5)
13 I'd be slack perhaps and lapse into bad habits (9)
14 A note sent out by representatives (8)
16 Tributes to the dead from the wars (7)
19 Held place in the rush (7)
21 American beauty queen is married (8)
23 X marks the spot in a political address (6,3)
25 Deduction of French small coin (5)
26 Male and not male (6)
27 See 7 down
28 Birds – but not birdies (6)
29 Not how one disclosed a status of a nun? (7,2)

DOWN

1 Person out – on patrol? (6)
2 Improving – using a reference book? (7,2)
3 A wild shot, but a fine musketeer (6)
4 Large volume of transport? (7)
6 Umpires with supervisory duties? (9)
7, 27 across Where investors go, looking for a capital return? (5,8)
8 Unusual Sudanese entertainer (8)
11 Boat made by company in Cornwall? (4)
15 Paris landmark remade, not demolished (5,4)
17 It's extremely handy for a sort of sketch (9)
18 Arms can end or cause trouble (8)
20 It may be kept or eaten (4)
21 Rainy day in the near future (7)
22 Doesn't become the worse for drink (6)
24 Doctor to tease a girl (5)
25 Take steps in time (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday March 18.

WORLD STOCK MARKETS

AUSTRIA

[illegible]

FRANCE (continued)

[illegible]

GERMANY (continued)

[illegible]

ITALY (continued)

[illegible]

SWEDEN

[illegible]

CANADA

TORONTO

Closing prices March 3

[illegible]

MONTREAL

Closing prices March 3

[illegible]

INDICES

NEW YORK DOW JONES

[illegible]

NEW YORK ACTIVE STOCKS

[illegible]

TOKYO - Most Active Stocks

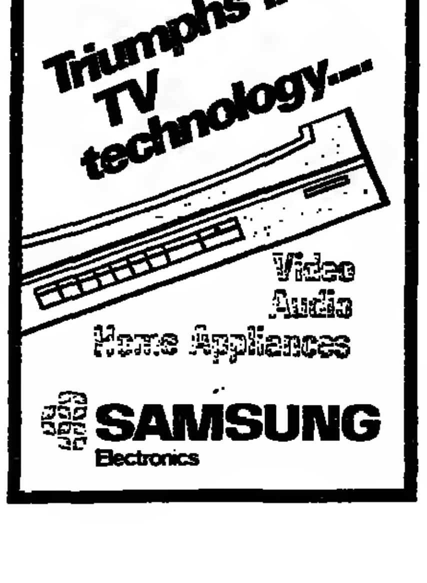
Friday 3 March 1989

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Fujita	74.3m	1,830	+130	Central Glass	22.7m	985	+78
Taisei	81.7m	1,790	+70	Kobe Steel	21.6m	885	+4
Shimizu	47.9m	2,300	+130	Sato Kogyo	16.8m	2,800	+80
Nippon Sanso	29.0m	1,010	-50	KHI	16.9m	916	-4
Showa Denko	26.3m	1,070	+20	Yasukawa	14.6m	955	-12

4pm prices March 3

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		— A — B — A —								
28⅛	21	AAR	.44	1.5	10	495	29¼	27½	46	— ⅛
10⅛	8⅜	ACM n	1.01	11.		x133	8⅞	8⅞	8⅞	+ ⅛
12⅛	10¼	ACMIn	1.26a	12.		365	10⅜	10⅛	10¼	+ ⅛
10⅛	8½	ACM M	s1.01	11.		x76	9⅛	8⅞	9	
10⅛	10⅛	ACM Sc	1.26	12.		763	10⅞	10½	10⅞	+ ⅛
10⅛	8½	ACMSp	n.55e	9.5		229	8⅞	8⅛	8⅞	+ ⅛
5⅛	2⅞	AMCA	.12e	3.0		16	4	4	4	— ⅛
6¼	3⅞	AM Intl				2245	6¼	5⅞	5⅞	
20⅛	18⅝	AM Int pf	2	8.8		45	22⅞	22⅛	22⅞	+ ⅛
32¼	30	AMR			7	3095	58½	58¼	58⅛	— ⅛
25¼	30	ANR pf	2.67	10.		35	25½	25½	20½	
46⅛	22⅛	ANR pf	2.16	9.2		36	23½	23⅛	20⅛	— ⅛
8½	4⅞	ARX				124	5⅛	5½	5⅛	+ ⅛
49⅞	46¼	ASA	3a	7.5		312	49⅞	40	46	+ ⅛
23¼	14⅜	AVX	.24	1.4	9	60	17⅞	17¼	17¼	
10⅞	42⅞	AbtLab	1.20	2.3	15	2134	51⅛	51⅛	51½	+ ⅛
23¼	15⅛	AbitibI g	1			14	16⅜	15⅜	10⅛	— ⅛
13⅞	7½	AcmeC	.40	2.6		26	10⅞	10¼	10½	+ ⅛
8⅝	6⅞	AcmeE	.32	2.0	22	6	8⅛	6	6⅛	
30¼	19⅛	Acusn			24	475	28⅝	28⅛	28⅛	
17	14½	AdaEx	1.82e	12.		92	14⅞	14⅛	14¼	— ⅛
18⅞	7⅛	AMD			74	1811	8⅛	8	9⅛	
43½	28¼	AMD pf	3	9.5		28	21⅛	31⅛	31½	— ⅛
8½	6½	Adobe				34	7⅞	7⅛	7½	
18½	16½	Adob pf	1.84	11.		1	17⅛	17⅛	17⅛	+ ⅛
21⅛	20	Adob pf	2.40	11.		7	20⅞	20⅞	20⅞	+ ⅛
8⅛	8⅞	Advest	.12	1.5	16	17	7⅞	7½	7½	— ⅛
52½	38½	AetnLf	2.76	6.6	8	1799	40⅛	40	40	— ⅞
44½	24	AflPb s	.22	.5		640	42⅛	41⅛	42¼	+ ⅛
18¼	16¼	Ahmans	.80	5.1	9	1870	17⅞	17	17⅛	+ ⅛



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NYSE COMPOSITE PRICES

Continued from previous Page

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Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices March 3

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OVER-THE-COUNTER

Nasdaq national market, 4pm prices March 3

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The Business Column

Grasping the nettle of good design

Ever since the Britisb retail industry, the London stock market and *Mrs Margaret Thatcher* awoke almost simultaneously in the early 1980s to the pulling-power of good design, British chief exectives have been subjected to waves of government-backed publicity about how design can improve the commercial fortunes of their companies.

The latest flurry has just begun, under the twin aegis of the Department of Trade and Industry and a revitalised Design Council.

A campaign on the same theme, bnt driven by the media rather than by government, has broken out over the past two years in the US. It draws much of its force from the design-led revival of the Ford Motor Company, Steelcase furniture and a few other US corporations, as well as from the flood of well-designed Japanese imports.

Yet on neither side of the Atlantic has this design drive had much effect. In the US it may be too early to expect results, but in the UK the continued preference of consumers *for imported products* – and the yawning trade deficit – demonstrate only too clearly that the impact of seven years of publicity has been patchy at best, and in some industries hardly perceptible.

Most past explanations for the resilience of the problem have rested upon a mixture of ineffective promotion techniques and management myopia towards design and other non-price factors. Design is certainly a difficult concept to get across to hard-nosed executives who have always thought it synonymous with, at best, the colours and shapes of their products.

But evidence is now emerging that, even among companies which think they have got the right message, the problem reaches well beyond the concept of design, into the way it is organised and managed. According to a study by two researchers at the London Business School and Teesside Polytechnic, UK companies which have demonstrated their design commitment by developing a formal design policy and appointing a design manager have signally failed to reinforce these moves with any changes in organisation structure.

Organisational structure

Writing in the current issue of the European Management Journal about "why design is difficult to manage*," Angela Dumas of LBS and Allan Whitfield of Teesside rightly liken this to having a marketing function without the necessary organisational structure to implement it effectively. They also point out that when a company makes a commitment to *design, this represents* a change in strategic focus which must be managed as professionally as any other sort of change; yet this is seldom recognised in industry.

Part of the problem appears to be a failure to recognise that design is only really effective if it permeates every aspect of a company's operations, from its products (if it makes or sells any) to its buildings and its communications with cnstomers and employees; such pervasiveness is one of the main criteria for the design management awards which this newspaper makes every two years in partnership with LBS.

But this very pervasiveness is also part of the problem, since it can only be organised effectively by creating a design management structure which spans (or, at least, links into) separate functions such as marketing and engineering – both of which have always considered design to be a junior offshoot of themselves. In other words, effective design management requires a *radical shift in the balance of* power within companies, initiated by top management and reflected in the structure beneath it.

It was this sort of change which allowed Ford to design a generation of cars which leap-frogged its competitors, initially in Europe but most effectively in the US. More supposedly design-minded companies should follow suit.

**Vol 7 No 1 (March 1989). Published by Basil Blackwell, 108 Cowley Road, Oxford OX4 1JF.*

Christopher Lorenz

THE MONDAY INTERVIEW

Match for the Polish workers

John Lloyd and **Christopher Bobinski** speak to Mieczyslaw Wilczek, Poland's Industry Minister

We had the impression that tha Industry Minister was being frank. In the course of an interview of some 80 minutes, conducted at 8am on a Warsaw February morning, he said:

Polish workers had better shape np, make their enterprises profitable or they would be made redundant.

Workers in the Gdansk shipyards (birthplace of Solidarity, workplace of Lech Walesa) were far too strike-prone; when they struck, they sunbathed.

Galloping inflation might as well get worse in order to get prices in line with world levels.

Then he dared the Politburo of the Polish United Workers (Communist) Party to fire him. And he said that Polish economists had done as much damage to the Polish economy as Joseph Stalin.

He can be frank partly *because, as he says himself, he* doesn't need the job. He's one of the richest men in Poland, having made billions of zlotys in a jointly-owned feed concentrates business, then in the fur trade. "I'm here," be says, "because there's no one better to do the job."

And what a job. A foreign debt of nearly $40bn. Inflation at 50-60 per cent. A round of wage strikes, mostly settled at the concession of increases around the 60 per cent mark. As the more advanced countries of the world economy move into a post-industrial age, Poland remains trapped in coal, steel and shipbuilding. Its industries use 2.5 times as much energy as their western equivalents. Huge plants predominate: 10 per cent of the industry employs 50 per cent of the workforce and pre-empts 75 per cent of the means of production. In these plants the most militant workers are to be found. "All of this," says a recent work on Poland*, "makes reform, either in physical resource terms or in struc*tural terms, very difficult.*"

Wilczek knows it's difficult. So he concluded that there is little future in fiddling with the Gordian knot: and so is hacking at it. Soon after his appointment four months ago, he announced the closure of the Gdansk Lenin shipyard – but not before having a word with one of the first visitors to his office – the Swedish Ambassador. The Ambassador told Wilczek that his country had closed all of its shipyards only recently – a rapid fall from having been the world's fourth largest shipbuilder.

"What would *you* do if you were in a situation where you were pouring subsidies into plants which cannot make a profit and thus cannot help those who might succeed? Lenin takes up zlotys 28bn in credits and has a Zl 10bn loss. We in Poland only make the vessels – yet the money is made on the electronics and the equipment, which we have to import. If I were to be consistent I would close at least half of Poland's yards.

"Besides, one of the vary important factors in assessing the economic situation of an enterprise is the ability of the workforce to commit itself to improvement. But if you ask yourself what the people in the Lenin shipyard want to do – it seems they only want to strike.

PERSONAL FILE

1932 Born. Educated Silesian University, Warsaw University
1957-61 Director, Viola Cosmetics Plant
1961-64 Deputy Director, Warsaw Odour Synthetics Plant
1965-69 Deputy Director, Pollena Chemical Industry Union
1971-74 Director, COBR Joinery Industry
1974-85 Co-owner of Feed Concentrates Plant
1985-88 Co-owner of Lavil (fur) Company
1988 Industry Minister

I think they are waiting for the warmer weather so they can strike over my decision to close it. The big criticism I got was that I announced closure when it was cold. You know what the strikers there look like – they all go sunbathing."

Asked if the closure of the yard had a symbolic, rather than *simply* practical, intent, he talked round the question for a while, then said: "The Government had to prove that it could *do* something."

Wilczek is not keen on lazy workers, and wants to teach them a lesson. "Only when enterprises go bankrupt will people understand. Enterprises can pay their workers 40 or 50 or 60 or 70 per cent pay rises – if they make the profits. But if they don't they will have to learn that they go bankrupt."

Was it not the case that Poland lacked the whip of unemployment? He admitted that it did. "But what happens is that workers lose the jobs to which they are accustomed. They have to find other jobs. That's a discipline."

He is keen on managers, at least on managers who manage. He wants to give them space in which to do so. He talks enthusiastically about the management of the Omig electronics plant in Warsaw, which took over this state enterprise, made it efficient to its limits under state ownership and now wants to lease it to get the grip of semi-private ownership upon it.

But Wilczek is not enthusiastic about workers' self-management – the system, strongly backed by Solidarity, under which workers in a plant elect a council from among their members which is supposed to share power with management.

"I don't object if it's seen as one of the ways to improve the efficiency of state management – but it's only *one* of the ways. In many countries, they have found that running a company with a strong management and introducing shares which can be sold to the public and to workers is much more successful."

Was Wilczek doing this in the name of socialism? And if so, what did Polish socialism now consist of? It was not a question which made him happy. "I don't understand the theory which says that socialism must be state ownership. Socialism is not a question of ownership. If this society is to rescue itself it must be efficient. It should use any means to become as efficient as the systems in the West. I was a private entrepreneur for 15 years – but I was also a socialist and a democrat."

If he is unconcerned about how to square his practice with ideology, others may be less so. Indeed, one of the more convincing signs that a certain "depoliticisation" is occurring in Polish society is the evidence that the Party leadership is worried by the direction taken by the more gung-ho of Prime Minister Mieczeslaw Rakowski's ministers, shown by the Party leaders' sniping – especially at Wilczek.

The Industry Minister mentions that he thinks inflation could, even should, rise to bring prices up to world market levels. This directly conflicts with the views of Wladyslaw Baka, a member of the Politburo and Central Committee secretary specialising in economic matters. To this, Wilczek says, in so many words, I don't care. Ministers have rarely said that of Politburo members in socialist countries, even recently. "As long as I and the Government as a whole represent a certain movement and retain authority, we will continue on this path. I don't much care about such criticism as Baka's."

He doesn't much care, it seems, about any criticism coming from theoretical rather than practical sources (Baka was an academic economist). He has to listen to economists rather a lot at the moment, since he is taking a leading role on the Government side in the round table talks which have brought Solidarity into dialogue with the country's leadership and Solidarity is stiff with economic advisers. It gets on his nerves.

"I hate all this stupid talk. If you listen to what Polish economists say – they think they know everything. But if you ask them what they would *do* in a given situation, they can't tell you. It's a mixture of left wing-ery – old theories of the West, old theories of the East. I told (Professor Jan) Mujzel (one of Solidarity's leading economists) that the greatest damage was done to us by Stalin and by Polish economists. They keep repeating the same rubbish. Either you go with a market economy or you don't.

"I'm appalled that the opposition is so much worse than the Party people. The opposition proposes all these pseudo-socialist solutions, which will make things worse. Both Baka and the Solidarity people talk about workers councils – and yet they know they will tie the hands of management and give ministers no power at all. If Baka was any kind of a politician he'd realise this."

What keeps him in the job? There are some grounds for optimism, for example exports are rising steadily and industry overfulfilled planned production last year. He thinks his enterprise directors and managers now understand what the Government is after, and will support it. Above all, he believes that the gamble which he and his colleagues are taking – based on the belief that there is a reservoir of entrepreneurs in Poland waiting for the freedom and the framework within which to enrich themselves and their country – will pay off.

He rejects a pessimistic comparison between Poland and the Soviet Union, where a surge from below has not, so far, been strong (or consistently encouraged). "I'm not afraid of the lack of drive – it is well known that the Poles are entrepreneurial, are so all round the world. The private sector in the Soviet Union has always been punished – Stalin managed to extinguish the most active people in that field. We did not."

He smiles and gestures the interview to a close. What has he been describing? Certainly it is not socialism as commonly understood: it is perhaps a kind of state-guided corporatism, at least formally committed to competition and to modernisation.

One thing at least is completely clear. He, and presumably his colleagues in the Government, are quite prepared to take on the Polish working class, if it stands in their way. They believe the Solidarity explosion has happened and thus need not be afraid of presenting the workers with the facts of the country's bankrupt state and the sacrifices which are required to sort it out – most of all from the working class itself. It is not, presently, a road being travelled by Mr Mikhail Gorbachev: and perhaps could only be travelled by those prepared to lose power.

** Poland: Politics, Economics and Society, George Kolankiewicz and Paul G Lewis; Pinter*

'I'm here because there's no one better to do the job'

Censorship reform for art and literature

JUSTINIAN

Amid the welter of political and other public comments on Mr Salman Rushdie'e The Satanic Verses, there lurks a much more general issue about the relationship of the law to *works of art* and *literature*.

While Mr Rushie's offending remarks about the Moslem religion focus on the blasphemy laws, and distracts attention away from the limited use of the criminal law in the area of freedom of expression, a recent case in the courts reveals a deploymant of prosecntorial authority that calls for as much sympathetic discussion as Mr Rushdie's predicament.

At the Central Criminal Court last month a sculptor and a gallery director were convicted on charges of outraging public decency. The significance in the case was the prosecution's resort to a common law offence which denied the two accused of any ability to plead artistic merit for the work.

The two accused had exhibited in a glass case a mannequin's head, wearing a pair of human foetuses of three to four months' gestation hanging from its ears. The foetuses had been obtained from a pathology lecturer; the sculptor had placed them in a special solution "to bring them back into shape" and then had them freeze-dried.

The case involved a small gallery and a relatively unknown artist. It has a curiosity that the outcry about works of art or literature are rarely prompted by the receipt of gen*uine complaints from an out*raged public, but occur fortuitously.

In the foetus earings case there had been no complaint from the public; the prosecution arose after a telephone call from the Daily Mail to Scotland Yard representing, inaccurately, that foetuses were on sale in a south London shop.

The police officer who went to investigate was puzzled about whether the law had any applicability. The ensuing prosecution gave prominence to an obscure artistic venture that may not otherwise have aroused a mouse's squeak.

Likewise, 10 years ago it was only the moral crusading of Mrs Mary Whitehouse that brought Professor James Kirkup's poem in Gay News out of obscurity beyond the no doubt admiring readership of that homosexual journal. The law thus gives increase to an event that could be left quietly to its own devices without a ripple on the public scene.

The outrage in tha foetus earings case was entirely due to the sculptor's material. To portray the avant-garde art philosophy the sculptor had used real foetuses in his work. Had he sculpted models of foetuses no prosecution could have conceivably succeeded.

The use of parts of tha human anatomy has been outlawed hy Parliament. Under the Indecent Displays Act 1961 it is provided that no artistic defence regarding parts of the human body is available. Why then was that legislation relied upon, instead of the less well defined common law offence of outraging public decency?

It might be that the prosecu*tor pondered over whether a* foetus can in law be a human body. If it is not, then whatever indecency exists in exhibiting it cannot properly be dubbed as outrageous. Or at least the law should be made clear whether a foetus comes within the 1961 Act.

The prosecution of a trivial and insignificant infraction of the criminal law has serious implications. Not only does the offence of outraging public decency commit prosecutors to circumvent the special provisions for protecting authors and artists of the public good defence which Parliament expressly erected in the Obscene Publications Act 1959, but it also makes a mockery of criminal justice.

It is an irony that had the allegation of outraging public decency gone further so as to warrant the more serious *offence of deprivation* and corruption (which is the definition for an obscene libel) then the defence would have called expert evidence to support the claim of artistic merit. The lesser charge excluded any auch defence. Eithar tha defence should be available for both offences or neither.

The case for not permitting the defence of public good at all is strong. Many literary and art critics find themselves in a predicament whether to put their heads on the public chopping block or not.

Many serious commentators think, for example, that Mr Rushdie's work is of questionable merit. Other critics who are prominent libertarians in the art and literary worlds are nevertheless prepared to go into the witness box in defence of freedom of expression although they may seriously doubt the worth of the painting or book on trial. The problem is that freedom of expression involves artistic and literary works thet often may not please or be intended to please the viewer or reader. Works which are dssigned to challenge assumptions or moral feelings of their audience are more vulnerable to criminal liability than those that swim with the current tide of public opinion.

Much of tha common law has been superseded by statute, with its emphasis on protecting the arts, sciance and education from arbitrary and subjective censorship. But as with eo much of English law the reforms in this area have been piecemeal.

It is the censorship aspect which is worrying the worlds of literature and art. Without a change in the law, to bring uniformity of principle to the boundaries of freedom of expression, there remains too much room for bad prosecutions and unfortunate convictions. And that can only be unhealthy for a civilised society.

SECTION III

FINANCIAL TIMES SURVEY

The major challenge facing President Ibrahim Babangida is fulfilling his pledge to return to civilian rule by 1992 while sticking to unpopular austerity measures. Success could help restore the clout Lagos once enjoyed in Africa, writes Michael Holman, Africa Editor

Africa's troubled giant

AFRICA'S MOST populous nation is under severe strain. Its economic recovery programme is faltering, living standards are falling rapidly, and political and religious tensions are not far below the surface.

At one level, the cause of the crisis in a state which owes its external creditors nearly $30bn can readily be identified. The reflationary budget in January 1988 has begun to undermine the structural adjustment policies introduced by the military government of President Ibrahim Babangida in June 1986.

The achievements under that programme, drawn up in close consultation with the International Monetary Fund and backed by the World Bank, have been considerable. The corrupt and inefficient system of allocating foreign exchange through import licences has ended. Price controls have been lifted. More than 90 companies are listed for full or partial privatisation, and remaining state-owned enterprises are being put on a commercial footing. Trade has been liberalised. Some of the barriers to foreign investment have been removed. Reforms in the agricultural sector are bearing fruit.

Many of the measures required political courage on the part of President Babangida, who seized power in a coup in August 1985, for they antagonised powerful lobbies.

But one of the pillars of structural adjustment is a realistic exchange rate, and it was in this area that the 1988 budget has proved to be a costly mistake.

The authorities realised their error in mid-1988, as the fiscal deficit headed for more than double the targetted 8 per cent of gross domestic product. They are still grappling with the consequences.

An agreement with the IMF lapsed at the end of 1987 and was not renewed. As a result commitments from donors, trading partners and banks worth several hundred million dollars were not disbursed.

Today the inflation rate exceeds 50 per cent, and the Naira is held at an artificial level, well below the black market rate.

The Government is struggling to recover the situation. The January 1989 budget won the near unanimous approval of donors and western governments as a determined attempt to make up lost ground. But while it paved the way to a new agreement with the Fund, one of the key conditions — the establishment of a free market rate for the Naira — appears to have been broken before the ink on the Government's letter of intent was dry. The Central Bank of Nigeria continues to intervene in the daily auction of foreign exchange and fix the Naira at a little over N7 to the dollar, compared with a black market rate of around N10. This issue could well prove to be a major stumbling block when the agreement is reviewed in April.

In the meantime the Government's room for manoeuvre is limited by the outcome of a passionate national debate conducted in 1986 on the merits of borrowing from the IMF. Opinion was overwhelmingly against it. Most Nigerians feared an erosion of their economic sovereignty, doubted the efficacy of the IMF medicine for distressed African economies, and suspected that any new borrowing would end up in private pockets.

Although President Babangida went on successfully to seek the Fund's imprimatur on his government's economic policy, he has so far steadfastly refused to draw on the resources — $620m under the current 15-month standby facility — to which Nigeria is entitled.

Yet declining this support for the embattled Naira makes it even harder for the Government to overcome the exchange rate problem.

Government officials are already uneasy about the political implications of a 20 per cent devaluation in January, when the central bank moved part of the way towards meeting the IMF terms. At this stage, at least, the authorities are reluctant to allow a further fall, taking into account that the Naira had in the course of 1988 already substantially depreciated. Drawing on IMF money, however, would at least cushion the drop.

But the Government's dilemma does not stop here. A $600m pledge by donors at a meeting in London in early January is conditional on the IMF agreement being sustained. Also dependent on an IMF pact is a successful outcome to a meeting to discuss the rescheduling of Nigeria's Paris Club debt, due to take place shortly before this survey is printed.

Ways may yet be found to help President Babangida, who is due to pay a state visit to Britain in May, out of his predicament. Western governments remain supportive of an administration admired for what it has done, and for which there is no obvious alternative.

But there is another level to the Nigerian crisis which is not easily susceptible to remedy. It is made up of several factors.

There is a weakness in policy implementation, partly due to a demoralised and inefficient civil service. Corruption appears endemic, tainting trade and project contracts, the banking system, and the government's main rural spending programme. Part of the legacy of the oil-boom — which at the 1980 peak saw export earnings reach $25.6bn (in 1988 it was $7.1bn) — is the array of ill-conceived or poorly managed projects which continue to sap scarce resources. Examples include the incomplete, multi-billion Ajaokuta steel plant, the new federal capital at Abuja, and a telecommunica-

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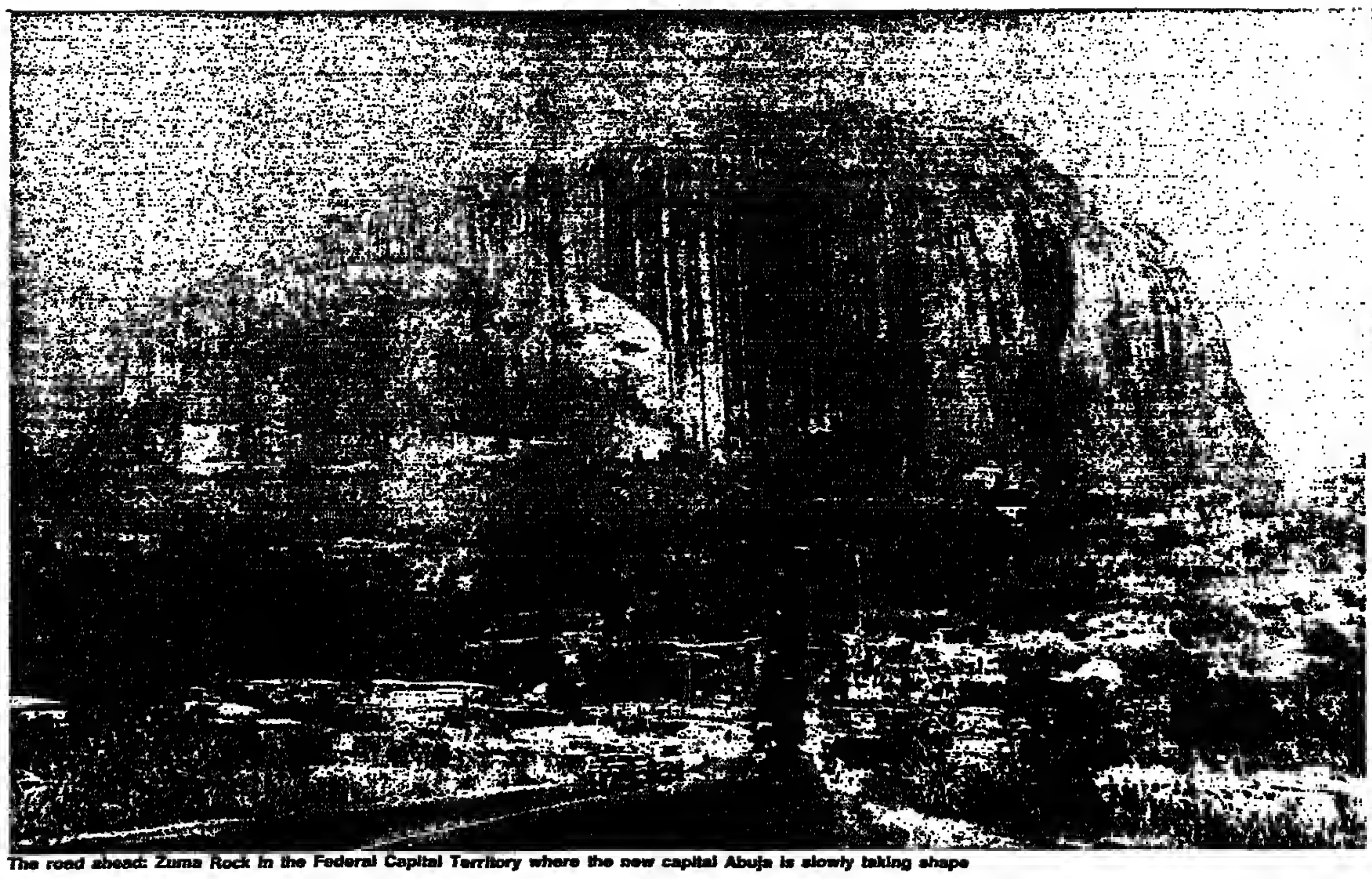

The road ahead: Zuma Rock in the Federal Capital Territory where the new capital Abuja is slowly taking shape

NIGERIA

KEY FACTS

Area: 923,768 sq km
Population: 100m-105m (est 1987)
Head of state: President and commander-in-chief of the armed forces: General Ibrahim Babangida
GDP growth: 1.2%
GDP per capita: N1050m; $262
Currency: Naira (N) = 100 kobo
Avg currency rates: N4.006=$1; N6.565=£1
Inflation: 40% (est 1988)
International reserves: $1,120m
Merchandise exports (1988):$7.1bn
Merchandise imports (1988):$5.6bn
Trade balance: $1.5bn
Current account: -$1.7m
Trading partners Imports: UK 16.8%; West Germany 13.5%; France 10.0%; Japan 9.0%
Exports: US 46.7%; Spain 10.8%; West Germany 10.1%; France 7.4%
Total stock of debt: $28.7bn
Total debt service: $779m
Debt service ratio: 10%
Debt as a % of GNP: 122.6%
All data 1987 (unless otherwise stated)

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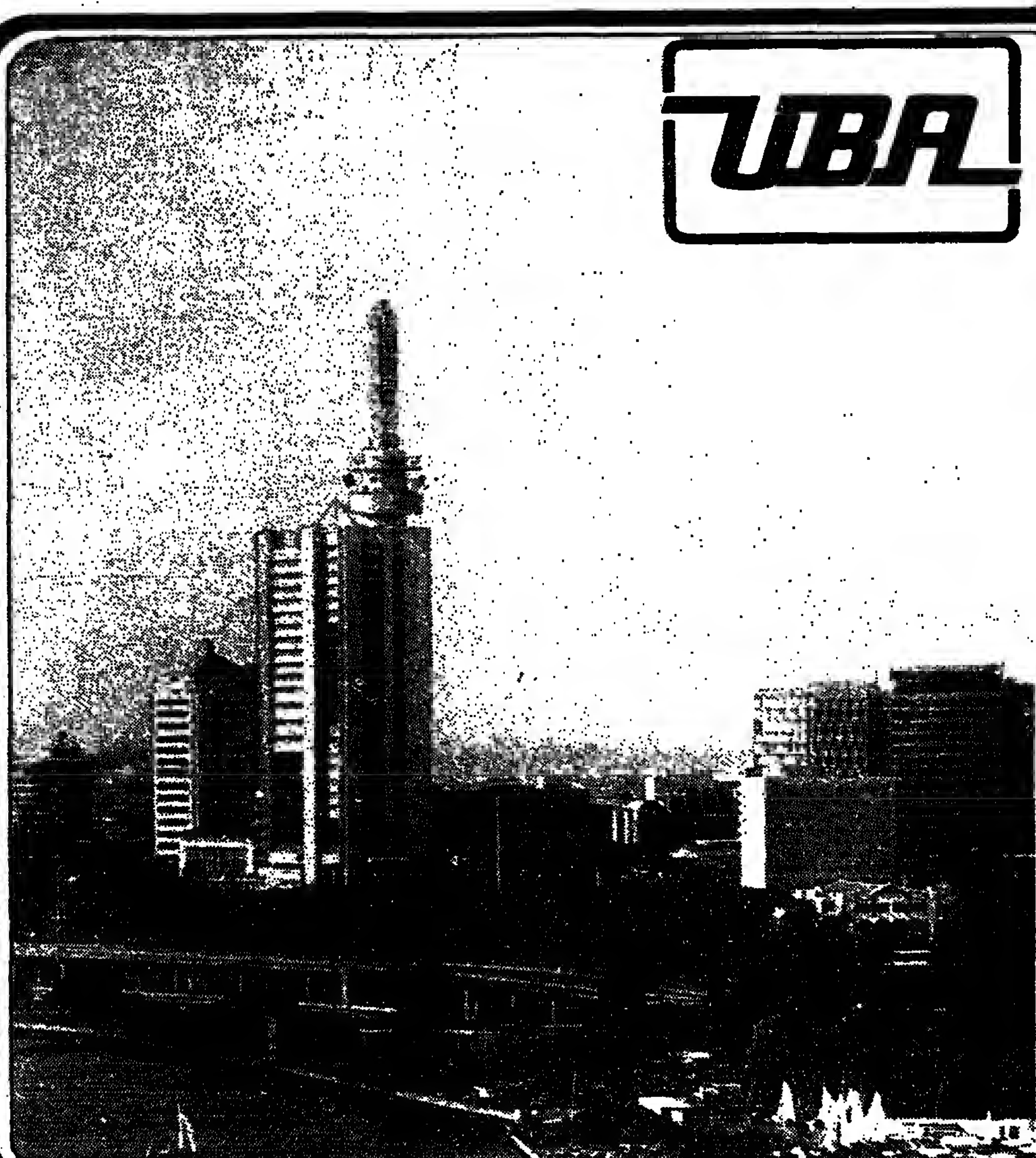
Pictures by Ashley Ashwood



Michael Holman on Babangida's skilful political manoeuvres

Goal hungry President

PRESIDENT IBRAHIM Babangida has been nicknamed "the Maradona of Nigerian politics" in tribute to his deft footwork and resilience under pressure. Time and again he has emerged from the fray either with a goal, or at least still on his feet after some rugged tackles.

To give some examples. The passionate opposition to the International Monetary Fund that surfaced during a national debate in the latter half of 1985 seemed on the face of it to rule out co-operation with the institution. Yet by portraying the Structural Adjustment Programme as a home grown remedy for the nation's economic crisis the Government won the Fund's endorsement for one of Africa's most radical reform strategies, but kept in tune with public sentiment by refusing to draw on the IMF loan to which it became entitled.

The President held steady through the uproar that followed the decision in August 1985 to change from observer status to full membership of the Organisation of Islamic Conference, which exacerbated tensions between Nigeria's predominantly Moslem north and largely Christian south. It remains unclear, however, as to whether Nigeria has taken advantage of its apparent change of status. But the move probably stood the President in good stead when economic reforms hit businessmen in the north harder than their southern counterparts.

He ruthlessly nipped in the bud a coup when a group of 13 alleged plotters, including a minister, Major General Vatsa, were put before a firing squad in February 1986. This reinforced Babangida's authority.

The President may also have found a way out of an apparent stalemate over the IMF's advocacy of a big cut in the subsidy of domestic fuel. A marginal increase in the price last April prompted riots in Jos, and strikes in Lagos and Kano.

But in his 1989 budget

President Ibrahim Babangida

address the President announced an ingenious two-tier system. The cost of fuel for commercial vehicles — such as buses and taxis — stayed the same, and is sold at designated petrol stations. However, fuel for private vehicle operators was increased 43 per cent. The burden falls on the better-off and not the long suffering users of crowded public transport. So far, at least, the system appears to be working.

The final example is the national census, due to begin in 1991. It is a potentially explosive issue with the main religious groups seeking to inflate their numbers and the state and local governments doing the same thing because their allocation of Federal Government revenue is partly determined by population distribution. It now seems that the census results will not be available in time for the 1992 presidential election.

Yet many of the issues raised in the examples cited above turn out on closer analysis not to have been resolved.

There is a strong possibility that the Government may have to choose this year between drawing on an IMF loan to help close a financing gap, or trying to sustain an adjustment programme with inadequate resources. The decision to join the Islamic Conference may come back to haunt the Government. Further cuts in the fuel subsidy may be required under the Fund-endorsed programme, just as the price of electricity is set to rise.

But perhaps the biggest challenge facing the President is sustaining his commitment to a phased return to civilian rule by 1992, while sticking to increasingly unpopular economic austerity measures.

The President shows no loss of enthusiasm for the timetable. It envisages a lifting of the ban on party politics by mid-year and the registration in the third quarter of the only two parties which the Government will permit. The parties will contest local government elections, while voting for state assemblies and state governors will be held in the first half of next year.

Last month the size of the Armed Forces Ruling Council was reduced from 29 to 19, and moves to create a lower ranking "assembly of the armed forces" were set in train in what the President called "a change of gear" to accommodate forthcoming developments on the civilian front.

But quite how elections will take place without the benefit of an up-to-date census (current population estimates are based on a 1963 count) is not clear.

In the meantime, most aspirant politicians have jumped the gun. Many members of the Constituent Assembly meeting in Abuja to discuss a new constitution spend so much time away on the unofficial hustings that it is sometimes difficult to raise a quorum.

A ban which in theory prevents thousands of former office holders from taking part in politics seems likely to be as much honoured in its breach as its observance.

One encouraging development is that all factions are anxious to avoid the north-south, Moslem-Christian division to which a two party system could so easily lead. Partly to avoid such a schism, and partly to prepare for an election formula which requires the successful presidential candidate to win a big proportion of votes in two thirds of the 21 states, behind the scenes efforts are under way to form broad-based coalitions. Ideology will probably count for little, but some observers expect the outcome to be a "progressive" party with mildly socialist aspirations and a "conservative" party supporting free enterprise.

There are some officers in the army, however, who watch the process with misgivings, with little confidence in what is supposed to be a new breed of politicians. There are others who have enjoyed the benefits of office, and who may be reluctant to pass on the baton.

It is a situation that will test the skills of President Ibrahim "Maradona" Babangida.

■ **Economy:** Lagos faces an uphill task, writes **Tony Hawkins**

More bitter pills to swallow

NIGERIA'S Structural Adjustment Programme is in trouble, its viability threatened by rampant inflation and a depreciating exchange rate, which between them are rapidly eroding urban living standards.

Three and a half years into the programme, this may seem to be a harsh assessment, given the radical reforms already achieved. But the hard reality remains that coherent and rational though the overall strategy may be, it is just not going to succeed unless two crucial prerequisites are satisfied.

A major improvement in the quality of economic management is essential along with the political commitment to impose unpalatable and unpopular measures. Indeed, as is the case in so many African Structural Adjustment Programmes, the challenge is not an economic one but an admixture of political commitment and managerial effectiveness.

Getting the strategy right, signing International Monetary Fund letters of intent and getting the donors to rally around with pledges is far easier than making the policies stick in the face of a large, cumbersome and unmotivated bureaucracy, and a nation whose real living standards have been declining for almost a decade.

Managing structural change is always difficult and in Nigeria's case the problem is exacerbated by the concentration of economic policy decision-making in the hands of just three key figures — President Ibrahim Babangida himself, Mr Alhaji Abubakar Alhaji, Minister of State for Planning and the Budget and the Governor of the Central Bank, Mr Alhaji Abdulkadir Ahmed — for whom there are just not enough hours in the day to manage so diverse and complex a programme.

A major improvement in the quality of economic management is essential along with the political commitment to impose unpalatable and unpopular measures

Consequently, it is hardly surprising that slippages occur, bilateral debt-rescheduling negotiations that should have been concluded months ago remain unresolved and Ecu 300m (£192m) of EC aid remains undisbursed pending the completion of formal agreements.

With World Bank and IMF programmes now in place, the onus is on Lagos to meet stringent conditionalities of a Catch 22 nature. IMF credit ceilings and exchange rate targets are not going to be met unless some tough deflationary policies are introduced.

These are likely to include higher interest rates, some sterilisation of Naira export proceeds that are fuelling money supply growth, further significant depreciation in the exchange rate (with all the inflationary consequences that this has in so import-dependent a society), a 260 per cent increase in electricity tariffs, higher telephone tariffs and railway rates and fares and, perhaps most politically-sensitive of all, further phased increases in the domestic petrol subsidy, following the 14 per cent adjustment in the 1989 budget.

The Catch 22 arises because failure to bite the bullet will derail the programme altogether, but implementation of such unpopular measures when real earnings are about 40 per cent below their 1980 levels is likely to run into increasingly bitter political opposition.

Much of the blame for this unhappy predicament lies with the Nigerian Government itself. It was always a bad idea to sell structural adjustment as a two-year programme ending in 1988 since this implied an early return to prosperity which is simply not on the cards until the late 1990s at the very earliest.

A more serious miscalculation was the 1987 decision, in the wake of poor rains, to reflate the economy, resulting in excessive money supply growth and powerful downward pressure on the Naira last year, accentuated by depressed oil prices. Both money supply growth and currency depreciation could have been moderated had the authorities finalised debt-rescheduling agreements more speedily and cut subsidies earlier.

Nigeria's poor external debt-servicing record notwithstanding (arrears at the end of 1988 are estimated at $5.4bn), the international financial community, with the important exception of the commercial banks, strongly supports the reform programme.

The World Bank has started disbursing its $500m Trade and Investment Policy Loan (TIPL) while early in February the IMF approved a 475m SDRs ($620m) standby facility that can be drawn down over the next year provided Nigeria meets stringent Fund conditionalities.

Lagos, however, remains publicly opposed to utilising the credit and in its eyes the main aim of securing an IMF loan is to ensure access to debt-rescheduling with the Paris Club group of official creditors as well as access to fresh money from the World Bank, from bilateral donors and, less likely, from international commercial banks.

In London, early this year, a donors meeting agreed in principle to close Nigeria's 1989 forecast payments gap with Japan pledging $200m and Britain $100m in new assistance. This along with loans from the African Development Bank and other bilateral donors will provide an extra $800m in balance of payments support.

A meeting with Paris Club creditors will be held during the first quarter of 1989 at which Nigeria will seek to reschedule current maturing loans and existing arrears while later in the year, a Consultative Group meeting of donors is planned to canvass longer-term support for Nigeria in the 1990s.

The commercial banks have been conspicuously absent from these activities, underscoring the drastic change in Nigeria's international status during the 1980s from a middle-income oil producing country that could borrow on commercial terms to its recent reclassification as a low-income country.

As such Nigeria should now qualify for aid and concessional assistance including loans from the World Bank's soft-loan window (IDA) and possibly also, at some future date, from the IMF's Extended Structural Adjustment Facility (ESAF), though many other poor countries, without Nigeria's oil potential, are bound to strongly oppose any such change, since this would add another mouth to an already over-crowded table.

Despite this external assistance, the medium-term balance of payments challenge remains formidable. In 1989 alone there is a theoretical financing gap of more than $9bn which will be largely closed by the rescheduling of more than $6bn of debt-service payments. Under the agreement already reached with the London Club of commercial banks, Nigeria will pay only $600m on its commercial borrowings — $5bn less than original commitments.

It is hardly surprising therefore that the banks should have declined to make any new money available. With even larger savings expected from Paris Club reschedulings, the financing gap should be closed without Nigeria drawing on its IMF standby which, in Lagos, is seen as politically unacceptable.

None the less, if the oil price were to fall below the $14 a barrel level on which the foreign exchange budget is based, or there were to be a shortfall in the capital inflows already pledged, the authorities would have little alternative other than to face the political consequences of actually using Fund credit.

Even if all goes to plan, the cash-flow situation is precarious to say the least. At the end of last year, reserves were down to a mere three weeks coverage of imports and in January the foreign currency market was receiving only $35m a week compared with $55m last year, posing another serious dilemma for the authorities.

Unable to hold the exchange rate at what Nigerians regard as "realistic" levels of N5 to the dollar, they have found themselves effectively subsidising the traders and speculators by selling dollars at a rate below that ruling in the market. This threatens to undermine the recently approved IMF agreement, requiring Nigeria to establish a unified foreign exchange market where the rate is market-determined.

In the first month of its operations, the new system failed on two counts — an autonomous or parallel market rate emerged at a premium of 40 per cent and more above the official rate and, much more seriously, the official rate was not market determined but set below even the lowest bid submitted by the 67 banks. While the Government's attempts to stabilise the rate reflected anti-inflationary as well as political objectives, it was clearly at odds with the spirit if not the letter of the IMF agreement.

Official concern over inflation is understandable. The budget speech estimated 1988 inflation at 25 per cent, but central bank statistics show the composite (urban and rural) consumer price index rising 33 per cent in the first half of the year and businessmen estimate annualised inflation last year at around 40 per cent.

The official forecast of inflation slowing to 20 per cent in 1989 promises to be wildly optimistic, since with the removal of price controls Nigerian businesses operate on a replacement costs basis passing on exchange rate depreciation in the form of price increases.

Bankers and businessmen estimate that prices rose 30 per cent during the month of January alone and, unless or until the Naira stabilises, there will be continuing rapid inflation which could exceed 50 per cent by mid-year.

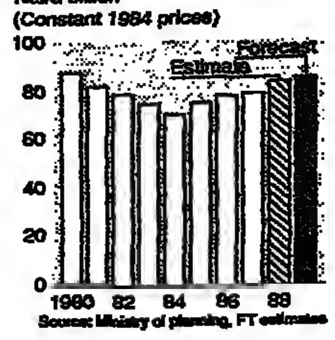
The onus is on Lagos to meet stringent conditionalities of a Catch 22 nature

Thereafter, one or two results could occur. Either inflation will slacken as deflationary measures start to bite while consumer spending power will have been eroding rising prices, or the authorities will have been forced to accept a general wage award for public servants, thereby further fuelling the price spiral. The latter outcome would jeopardise the IMF agreement since credit ceilings would be exceeded.

Quantitative judgements of the progress of structural adjustment are very difficult.

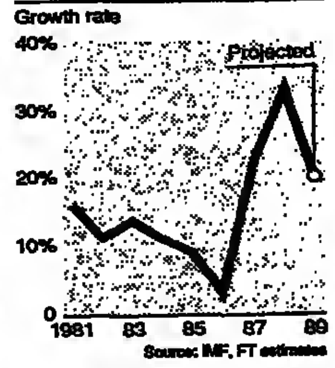
Continued on following page

GDP
Naira billion
(Constant 1984 prices)



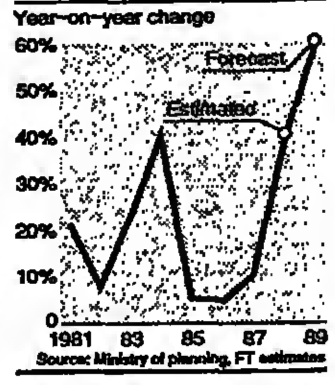
Source: Ministry of planning, FT estimates

Money supply
Growth rate

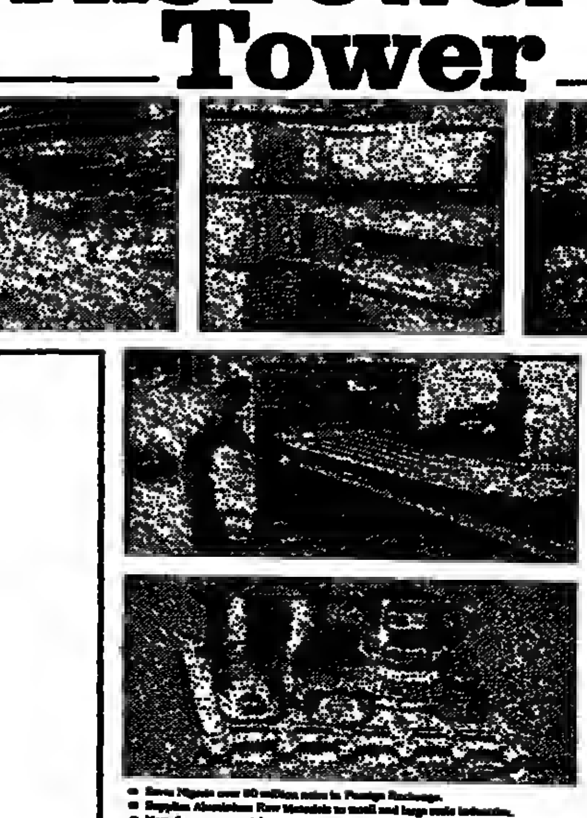


Source: IMF, FT estimates

Inflation
Year-on-year change



Source: Ministry of planning, FT estimates



The authorities are committed to stepping on the monetary brakes in 1989, reports **Tony Hawkins**

After the bonanza, a credit crunch

AFTER LAST year's money bonanza, Nigeria's banks are faced with the prospect of tougher controls, closer surveillance, higher interest rates and, above all, keener competition in 1989.

The 1988 credit ceilings were designed to keep money supply growth to a maximum of 20 per cent, but preliminary estimates suggest that, in the event, the growth rate topped 33 per cent. The main reason for this was the 35 per cent increase in Federal Government borrowing in very sharp contrast to average growth of only 3.5 per cent a year in 1986-87.

Bank lending to the private sector, which had been growing at 25 per cent a year in 1986-87, increased a further 20 per cent last year but two-thirds of last year's credit expansion was directly attributable to increased Government spending. As with fiscal policy, the situation would have been even worse but for the Government's mid-year decision to tighten credit. The 1988 credit guidelines were revised downwards in August and cash reserve requirements were raised by two percentage points to between 4 per cent and 7 per cent of demand deposits.

In 1989, the authorities are committed to stepping on the monetary brakes, though as yet there is little sign of this. February's gentlemanly 0.5 per cent increase in the central bank's minimum rediscount rate from 12.75 per cent to 13.25 per cent was interpreted as a signal that the central bank wanted to see higher interest rates, but with inflation running at an annual rate of at least 50 per cent, such a marginal rate increase is unlikely to have any material impact on the rate of credit creation.

■ BANKING

In theory – and it really is theory – banks are required to meet the credit policy guidelines which require them to increase loans and advances by no more than 10 per cent (12.5 per cent in 1988). Bankers say that many of the banks have already overstepped this mark, if only because they have charged interest on non-performing loans.

New and small banks, with lendings of less than N50m are not subject to quota until they reach the N50m threshold while those with loans of below N100m are subject to a 12.5 per cent growth ceiling. In addition, cash reserve ratios have also been raised a further point to between 5 per cent and 8 per cent of demand deposits depending on the size of the bank.

The conviction that such monetary targetting is a waste of time and effort is strengthened by two main developments. The first is that Nigerian bankers have merely followed the example set elsewhere in making loans that are not subject to official ceilings. Bankers Acceptances and Commercial Bills are two obvious options, though it is probably only a matter of time before tha controls are wideoed to cover them as well.

The second is tbe rapid growth in the number of banks that allow borrowers to raise funds from the newer, smaller banks which have still to reach their ceilings.

The authorities, committed to financial deregulation on the one hand and enhanced competition on the other, have licensed a growing number of banks. Since the end of 1987, the number of banks has risen from 49 to 81, mainly reflecting the popular perception that there is money to be made from the foreign exchange market.

Acquisition of a licence automatically entitles most new banks to a 1 per cent stake of the daily foreign exchange allocation, though in a couple of cases the share has been reduced to 0.7 per cent.

The fact that new banks with tiny deposit bases are able to secure one-fifth the foreign currency allocated to the major clearers, like First Bank and Union Bank, raised doubts not just about the equity of the system but the extent to which it is market-driven.

Rapid growth in the number of banks has three very real drawbacks. The first is that large companies are finding it necessary to maintain upwards of 40 bank accounts. One industrial group has four or five managers on the road every day moving from bank to bank to keep a check on its foreign exchange positions. The cost of such operations is hardly conducive to improved business efficiency.

A second drawback concerns both the cost and quality of bank staff. The banks are finding that their personnel costs are being driven up by the competition for experienced staff and the brightest and best of the young Nigerian bankers are being lured away from the existing banks to start new operations.

Third, there is the burden of regulation. Even in a deregulated system bank surveillance is essential and the proliferation of banks in Nigeria imposes just another responsibility on an already-overstretched central bank. The larger banks make little attempt to disguise their conviction that some of the newer operators are more interested in speculating in the lucrative foreign exchange market where there are rich pickings to be made than becoming serious mainline bankers. They believe it is only a matter of time before the authorities take action against a newcomer.

There is a fourth problem lurking in the wings and this is the likelihood of a number of bank failures over the next two years. Deregulation and enhanced competition are very worthy objectives, but as and when the credit crunch comes – as it surely must – so some banks will go to the wall. Will the Government be willing – or able – to stand aside while depositors demand compensation, or will it find itself forced to dip into the public purse and bail out some of 1989's high-flyers?

When the credit squeeze comes – as it surely must – some banks will go to the wall

The new IMF programme assumes a much tighter monetary stance than last year. Further, but only modest, growth in lending to the Government is envisaged along with a markedly-slower rate of private sector credit creation.

The money supply is forecast to rise some 10 per cent early in 1989; the implications of this slowdown, after last year's 33 per cent rise, had not been taken on board by the banks. If, as seems likely, credit growth remains strong through the first quarter of 1989, the central bank, with an eye on the IMF programme review due in April, will have to intervene far more decisively than hitherto, by imposing ceilings on bankers acceptances and commercial bills, or by a rise of 300 or 400 basis point in the base rate to demonstrate its determination to keep within the monetary ceilings.

Much will depend on how the fiscal strategy pans out since if – as planned – the deficit cao be financed from abroad, it will be possible to keep public sector borrowing within the specified 6 per cent guideline. But any fiscal slippage – which looks to be increasingly probable early in the year, given the delays in securing an inflow of new money from the Paris Club creditors – will, in the absence of effective official intervention, push credit growth over the top.

Early in the year, market conditions remained extremely liquid. One possible explanation for this being the changed foreign exchange system whereby customers were no longer paying upfront for their foreign currency but only as and when the banks made the funds available. This had the effect of releasing previously-idle funds into the market.

Clearly, liquidity must tighten substantially later in the year if the adjustment programme is to remain on course. Some bankers expect market demand to weaken as inflation erodes consumer spending power thereby reducing credit demand. But others make the equally valid point that with rapid inflation, the corporate demand for working capital will increase sharply thereby driving up interest rates and driving out inefficient small and medium-sized businesses – maoy of them Nigerian-owned – as well as some of the newer banks.

This scenario, by no means fanciful given the present inflationary climate, would further intensify the pressures on the Government, forcing it to make the unenviable choice between stabilising inflation and the exchange rate on the one side and driving many Nigerian companies out of business on the other.

Tony Hawkins

Tony Hawkins on the Government's promotion of its debt-equity programme

An auction with discounted lots

A YEAR AGO, Nigeria became the first African country to adopt a debt-equity conversion programme. By February this year, three auctions had been conducted in the course of which a total of $95m worth of promissory notes had been redeemed at discounts ranging from 58 per cent – in the first auction last November – to 37 per cent.

In effect this meant that the Nigerians repurchased their own foreign debt with a face value of $95m for just under $47m implying an average discount slightly above 50 per cent. But because the debt was repaid, not in dollars but in Naira, the authorities were able to reduce their foreign debts by making payments in domestic currency. The total Naira cost of this debt redemption was N276m, an effective exchange rate of only N2.9 to the dollar compared with an actual average rate of just below N6 to the dollar.

The repurchase of debt is only the first stage in the operation. Sellers are required to reinvest the proceeds in the expansion of existing businesses in Nigeria, the purchase of shares in Nigerian companies, the financing of new ventures or the recapitalisation of local companies.

Although all types of investment are permitted, priority is being given to labour-intensive and export-intensive projects, along with those in manufacturing, forestry, agribusiness, mining and the promotion of technical innovations. To prevent "round-tripping (the recycling abroad of the proceeds), the Nigerian regulations stipulate that no dividends or profits may be remitted during the first five years of the new investment, while capital may not be repatriated for at least 10 years.

Initially, the debt-conversion programme applies only to the $4.6bn worth of promissory notes issued in respect of trade arrears that accumulated in the early 1980s, though it is intended, eventually, to extend the scheme to cover bank debt. It was originally planned to auction some $610m of notes by the end of 1989, but this target

■ DEBT

looks to be far too high given the need to curb money supply growth. Such conversions increase the money supply since convertors are paid out in Naira in the domestic market.

Potential investors are required to submit their project proposals to the debt conversion committee before submitting their bids for premature redemption. Competition is fierce and in the first three auctions only 29 out of 94 bidders were successful. The marginal rate increased from 36 per cent at the first auction in November last year to 37.2 per cent in December before rising to 43.3 per cent in the February auction. The rise in the discount reflects the depreciation of the Naira on the foreign exchange market.

Given Nigeria's poor international investment image the debt conversion scheme is one way of attracting capital inflows that would not otherwise materialise. It is a game in which there are winners all round, except for the original holder of the promissory note selling his paper at a discount. The state reduces its debt by buying back its paper in domestic currency at a discount, the multinational invests in Nigeria at a discount, thereby leveraging its return, and new jobs and output are created in the economy.

There are two main snags: the impact on money supply growth at a time when monetary restraint is called for and the reluctance of foreign investors to increase their Nigerian exposure. None the less, holders of promissory notes who have written them down in their books, might just welcome the opportunity to invest in Nigeria at a substantial discount, and it could be an attractive investment too where promissory notes themselves are bought at a discount in the secondary market and then converted into Naira for a further discount.

In fact, promissory notes can be purchased at a discount of 23 per cent which, assuming an average debt-conversion discount of 50 per cent, means that a foreigner can invest the Naira equivalent of $100m in Nigeria for an outlay of less than $40m.

Bitter pill to swallow

Continued from previous page

mand little credibility. The Thus, while the official Nigerian figures show real output growth of 1.8 per cent in 1987 and 4 per cent last year, independent estimates point to growth of only 1 per cent last year and an output fall of 4.5 per cent in 1987. Agriculture's share of GDP has risen appreciably to 30 per cent from 25 per cent five years ago, while non-oil exports have quadrupled – in Naira terms – reaching N1.7bn last year.

To date, structural adjustment has done nothing for investment which languishes at 8 per cent of GDP, well below the 15 per cent average for the 1980s. Growth is not going to reach the modest 4 per cent annual target for the first half of the 1990s, unless the investment ratio doubles, which in turn will depend largely upon developments in the energy sector and the Government's attempts to attract investment.

Unemployment figures command little credibility... the number of jobless increased only slightly to 5.1 per cent of the workforce in March last year. But this is difficult to reconcile with falling per capita incomes, the shake-out in manufacturing industry and a 3 per cent annual growth rate of the labour force. However, large numbers of retrenched urban workers appear to have returned to agriculture; a disquieting feature is the 31 per cent unemployment rate among school-leavers.

Having come so far, it would be little short of a disaster if the ambitious Nigerian programme, in which international agencies have invested so much effort and prestige, were to fail. Not only is Nigeria one of the World Bank's top borrowers with loans totalling $4.7bn, but failure in Nigeria would demoralise the Bank and other western donors for whom successful structural adjustment in Africa has proved so elusive a goal.

Furthermore, much has already been achieved with the establishment of a new economic order, the sweeping away of import and price controls, the shift of resources into agriculture and domestic resource-based manufacturing, the growth – albeit exaggerated by Naira-based export figures – in non-oil exports and the deregulation of the financial system.

In January this year, the first public share offer was launched to privatise Nigeria Flour Mills while, if current targets are met, some $850m worth of promissory note debt will have been coverted into new equity investment in Nigeria through the debt-conversion programme.

But these longer-run structural objectives will only be realised if the Government can overcome the present attack of adjustment fatigue evident in weak and vacillating demand management, procrastination over unpopular policy measures and vain Canute-like efforts to maintain a "realistic" politically-determined exchange rate in defiance of market forces.

WHILE NAIRA devaluation and trade liberalisation have given a major boost to manufacturing industry, foreign currency problems remain at the top of every industrialist's agenda.

One manufacturer related how his company had managed to obtain less than $100,000 in foreign exchange during January compared with budgeted commitments, mainly for imported raw materials, of $1.5m. "We won't survive undsr these conditions," he added.

Prior to the 1986 economic reforms, industrial activity was confined mainly to import substitution. Import licensing and an overvalued Naira effectively discouraged both imports and exports, but structural adjustment has changed all that, fostering exports and production utilising local resources.

Surveys suggest that the combined impact of trade and exchange rate policy changes has been to boost the competitiveness of those manufacturers relying mainly on domestic resources, while assembly-style operations, dependent on imported inputs, are battling to survive. High value-added activities such as textiles, furniture, paper, cement and tyres and tubes, have done well under the new order, but as local content declines so too does competitiveness.

The shift in incentives implicit in exchange rate depreciation is only one part of the story. A year ago, Nigerian industrialists feared that World Bank-promoted tariff cuts would "de-industrialise" the economy as local markets were taken over by imports. But the positive impact of structural adjustment – in the form of increased protection via the exchange rate and improved access to foreign exchange – has easily offset the negative impact of reduced tariffs.

Furthermore, while the average rate of tariff protection declined from 35 per cent to 26 per cent as a result of the October 1986 tariff reforms, the revised tariffs introduced last year returned the average rate to 32 per cent. At the same tims, industrialists welcomed the announcement that the new tariffs would apply over a seven year period, thereby providing both infant-indnstry protection and an early-warning of changes to come.

In this environment, de-industrialisation has been seen to be the paper tiger that the protagonists of structural adjustment had forecast. While capacity utilisation figures, pointing to a 10 point increase from 25 per cent in mid-1987 to 35 per cent a year later, need to be treated with caution, there is no doubt that there has been a big fall in spare capacity.

Spinning machines at Nigerian Textile Mills plant

Tony Hawkins on the problems facing producers

Misplaced optimism

Official estimates suggest capacity utilisation of 40 per cent at the end of last year, while some industrialists say sales volumes increased by between 20 per cent and 40 per cent during 1988. Even so, the official forecast of 60 per cent

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capacity utilisation in 1989 looks to be overly optimistic.

Indeed, the Manufacturers Association of Nigeria (MAN) has expressed public reservations about official forecasts, warning that increasing difficulty is being experienced in obtaining foreign exchange – a reference to the 50 per cent cut in currency availability since the new interbank market was launched early this year.

Industrialists believe that growth will be seriously constrained unless the import bottleneck is eased. MAN identifies four main problems facing industry this year: the foreign exchange constraint; weakening demand as disposabls incomes fall; cost inflation and credit curbs; and inadequate protection for some industries.

In the near term, industrialists expect demand to weaken as price increases outpace income growth. A key feature of consumption patterns last year was the relative buoyancy of rural demand which was where most sales growth was achieved. In recent months, costs have been rising at an alarming rate with manufacturers predicting that factory gate prices will rise by more than 50 per cent in the first half of 1989.

Unless this price inflation is offset by at least some improvement in personal incomes, consumer demand will run out of steam by mid-year especially if, as seems inevitable, tighter monetary controls are imposed.

Despite this, officials say that last year's 8 per cent industrial growth rate will be maintained this year. This too is likely to prove over-optimistic.

Against this background, the Government's new industrial policy document, released in January, is attracting little enthusiasm in the private sector. The Nigerian Enterprises Promotion Decree (1977) has been amended to allow foreigners to own 100 per cent of the equity in any new business. Industrialists are unimpressed both because the old rules limiting foreign ownership still apply to existing investments and because they can see little in the new policy that will excite international investors.

Under the new regulations, all businesses other than so-called scheduled enterprises are open to 100 per cent foreign ownership, thongh strategic areas such as petroleum, mining and banking are excluded. The scheduled list encompasses 40 business categories, mainly in services rather than industry, where ownership must be 100 per cent Nigerian.

Nigerian optimism that the new policy will attract fresh foreign investment – other than in the energy sector – is almost certainly misplaced, though a possible exception is debt-equity conversions.

In the first half of the 1980s, net foreign investment in Nigeria averaged N600m annually, the bulk of which was in oil-related activities. Projections into the mid-1990s suggest inflows averaging $675m a year though this too, if it materialises, will be largely energy-related.

In a world increasingly-dominated by Asian cost-leaders Nigerian industry will struggle to achieve international competitiveness. Its overhead costs are high (poor infrastructure, security costs etc), middle-management is weak and it depends excsssively on imported inputs.

Official projections of import growth averaging 3.5 per cent annually can only mean that industrial expansion will be largely confined to those companies that can identify domestic sources of supply. For the remainder, market opportunities, no matter how attractive, will remain a hostage to capacity constraints.

Western trade with Lagos has fallen rapidly

Partner out of favour

IN 1981, Nigeria's imports of some $22bn made it a more important export market for OECD countries than the rest of sub-Saharan Africa as a whole. But this year imports are being forecast at a maximum of only $5.8bn – little more than a quarter of 1981 import levels.

In the light of these figures, it is hardly surprising that western interest in trade with and investment in Nigeria should have declined, especially given the background of trading relationships soured by the promissory notes affair and the continued build-up of payments arrears.

British trade figures illustrate Nigeria's declining importance as a trading partner. UK exports to Nigeria were worth £1.2bn in 1982, bnt hy 1987, they had fallen to only £482m, slipping a further 19 per cent to £357m in the first 11 months of last year.

In other words, Nigeria as a market for British goods has shrunk by two-thirds in just five years. Despite this, it remains Britain's largest market in tropical Africa, accounting for 31 per cent of UK trade with the region in 1987, and even at these depressed levels of trade, Nigeria is the UK's fourth largest market in the developing world.

All Nigeria's main trading partners have suffered though there has been relatively little movement in market shares, with Western Europe increasing its share at the expense of the US and Japan.

On the export side, the US dominates the scene accounting for an estimated 49 per cent of Nigerian exports last year compared with only 35 per cent in 1986 and 36 per cent seven years ago. The Netherlands which purchased 11 per cent of Nigerian exports in 1987 holds second place followed by Spain (8 per cent), France (7.7 per cent), Italy (6 per cent) and West Germany with just over 5 per cent. Only two regional export markets are of any real significance – Ivory Coast with a 3 per cent share of Nigerian exports and Ghana with 1.5 per cent.

Although progress is being made in developing non-oil exports, Nigsria remains dependent on oil earnings, though hopefully, gas exports will diversify the export base during the 1990s. The share of

TRADE

non-oil exports fell from 85 per cent of the total 25 years ago to less than 3 per cent at ths height of the oil boom in 1980-81. There has since been a modest recovery – largely the result of sharply lower oil proceeds. Oil exports fell from $26bn in 1980 to $6.2bn last year when the share of non-oil exports was 5 per cent.

Indeed, official Nigerian figures suggest that non-oil export performance is being oversold. Estimates for 1988 put non-oil exports at N1.7bn ($400m) with cocoa exports of N925m accounting for 53 per cent, while rubber exports were valued at N130m and palm kernal products at N60m. Manufactured goods and chemicals accounted for a further N200m with the balance being tin and other non-agricultural raw materials.

The 300 per cent growth in the Naira value of non-oil exports looks much more impressive then it really is, since in dollar terms, non-oil exports last year were, in fact, marginally lower than fiva years previously.

Critics of structural adjustment make the valid point that foreign currency is both more scarce and more costly now than ever before. This is the consequence of a weak oil market and a heavy debt-service hnrden. Gross foreign exchange earnings in the current year are forecast at $6.75bn of which 80 per cent will represent oil earnings and the balance, non-oil exports and investment and service income. Some $2bn of this is set aside to service the foreign deht (though the actual amount needed may well be closer to $2.5bn) while $200m will be used to rebuild reserves which at the end of last year were down to only three weeks import cover. This leaves a total of $4.5bn supplemented – hopefully – by capital inflows of a further $1.3bn, to finance imports of $5.8bn.

Accordingly, if all goes to plan, 1989 imports will be slightly higher than last year's estimated $5.6bn, though much depends on the speed with which Paris Club debts can be rescheduled and aid and export credit inflows resumed.

Whatever the outcome of the Paris talks, import capacity will continne to constrain Nigeria's economic growth until the mid-1990s. Even the most optimistic scenarios point to import volumes growing at no more than 3 per cent to 4 per cent a year which is small comfort when set against the 75 per cent decline in imports over the past eight years. Indeed, imports are unlikely to regain their 1981 levels by the turn of the century.

The capital account of the balance of payments remains a potential minefield. At the end of 1988, Nigeria's foreign debt was estimated at $29bn, having increased 130 per cent over the past six years. The bad news is the extent to which this debt growth represents the consolidation of trade and payments arrears rather than inflows of new capital.

When the SAP was launched, the assumption was that sufficient external finance would be forthcoming to enable Nigeria to maintain an acceptable growth rate while structural change took place. This was to be done by rescheduling debt and obtaining new loans. But aside from World Bank finance, little new loan capital has been forthcoming while direct foreign investment has virtually dried up.

At the same time, the scheduled debt-service ratio (foreign interest and capital repayments as a percentage of export earnings) jumped from 20 per cent in 1983 to 85 per cent last year. Clearly, this level of debt-service payments could not be met resulting in reschedulings and the accumulation of arrears, which were estimated at $5.5bn at the end of 1988. Scheduled 1989 debt-service payments are estimated at $5.6bn – a projected debt-service ratio of about 80 per cent.

Assuming rescheduling agreements are reached as planned, debt-service payments will fall to between $2bn and $2.5bn, or just over one third of forecast export proceeds. This burden, while just short of intolerable, threatens the viability of the import-dependent manufacturing sector.

Accordingly, it is essential to reach a quick agreement with Paris Club creditors so that new money becomes available to fund the interbank foreign

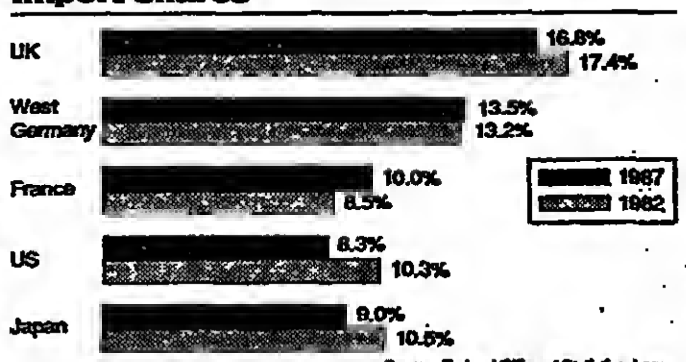
Continued on following page

Balance of payments ($bn)

	1987	1988	1989
Exports	7.7	7.1	6.9
Imports	5.7	5.6	5.8
Trade Balance	+2.0	+1.5	+1.1
Invisibles	-3.1	-3.2	-3.3
Current account	-1.1	-1.7	-2.2
Capital account	-2.3	-1.7	-0.7
Overall Balance	-3.3	-3.4	-2.9

Source: Ministry of Planning, World Bank and own estimates

Import shares



Source: Federal Office of Statistics, Lagos.

External public debt (Naira bn)

	1982	1988
Paris Club	3.3	13.0
of which arrears	0.3	8.1
London Club	5.7	5.8
of which arrears and rescheduling	1.4	3.5
Promissory Notes	1.1	4.8
Other Official	1.8	5.5
Other	0.5	0.1
TOTAL (rounded)	12.5	29.4

Source: Ministry of Planning, World Bank and own estimates

The Government has badly miscalculated, reports Tony Hawkins

Figures that do not add up

A YEAR ago the Nigerian Structural Adjustment Programme (SAP) was blown seriously off course when the authorities introduced a reflationary budget.

By mid-year, it was apparent that, on the basis of unchanged policies, the fiscal deficit would exceed 16 per cent of gross domestic product – double the forecast 6 per cent – almost all of which would have to be funded domestically, resulting in rapid money supply growth.

This was the consequence of some grave miscalculations in the 1988 budget, including the understatement of debt service obligations, internal as well as external, and the anticipation of increased revenues, mainly as a result of higher domestic petroleum prices, and extra-budgetary spending totalling some N2.5bn.

In the event, the domestic oil subsidy was reduced only very marginally, world oil prices weakened, and spending targets were exceeded raising the estimated deficit to some N15bn – 43 per cent above the original 1988 budget figure.

The authorities responded by tightening the fiscal stance in mid-year and in his 1989 budget speech in January, President Ibrahim Babangida announced a sharply lower deficit of *N7.6bn*.

However, this figure cannot be reconciled with independent estimates, putting the deficit as high as N13.5bn, and the Government's own 1988 Economic and Statistical Review which estimates the deficit up to September 1988, with three months of the year still to run, at *N7.8bn, forecasting* a still-higher figure by the year end.

■ BUDGET

Independent and donor estimates put the deficit at approximately 11 per cent of gross domestic product, way above the official estimate of 5.5 per cent.

This huge discrepancy between the two estimates arises both from the understatement of the deficit by the Nigerians on the one hand and the fact that their estimates of Nigeria's GDP are well above those used by donor agencies on the other.

The 1989 budget projects a 15 per cent rise in total spending to some N30bn while revenue will fall 5 per cent to N17.7bn leaving a deficit of N12.4bn, equal to 7.5 per cent of forecast 1989 GDP in official Nigerian figures. Independent estimates, however, put the deficit slightly higher at 8.5 per cent.

The figures in the accompanying table should be interpreted with the greatest caution. Not only are the 1988 figures likely to be significantly revised in the light of developments in the final weeks of last year, but those for 1989 will be substantially influenced by three major unknowns – the world oil price, the Naira exchange rate and the domestic inflation rate.

The revenue numbers look to be decidedly conservative, being based on an oil price of $14 a barrel and an exchange rate of N5 to the dollar. Oil is forecast to generate 76 per cent of total revenue and any gain in the oil price will have a major positive impact on revenues.

But the exchange rate impact will be substantially greater. Even the optimists believe that the Naira will average at least N8 or N9 to the dollar during 1989, thereby increasing the government's Naira receipts by upwards of 60 per cent.

Unfortunately, the exchange rate cuts both ways insofar as the largest single item of government spending is concerned. Interest payments on foreign debt are forecast at N8.6bn but this will treble to N25bn, should the exchange rate average N8 to the dollar as many bankers are forecasting.

Nigeria's budgets (Naira bn)

	1988	1989
Revenue	18.8	17.7
Recurrent spending	15.5	20.8
Capital spending	10.7	9.3
Total expenditure	26.2	30.1
Deficit	7.8	12.4
Percentage of GDP	5.5	7.5

Sources: Budget figures and own estimates

The other upward pressure on government spending will come as a result of the recent surge in inflationary pressure, much of which is attributable to the weakness of the Naira. *As living standards of* the soldiers, police, teachers, nurses and public servants fall because wage levels are pegged while inflation reaches 50 per cent, so the pressure on the Government to announce a general pay award could reach overwhelming proportions. At the same time, non-personnel costs will *escalate* in line with inflation.

All of which suggests that the Nigerian authorities will be hard pressed to satisfy their IMF and World Bank creditors. Excise duties on drink and tobacco were increased in the budget and this along with the new much-improved system of import duty collection should boost revenue.

Last year, tighter controls over duty collection raised an extra N500m in revenue and it is estimated that rigorous enforcement of the computer-based database on custom duties payable could raise a further N500m annually.

But even with a modestly-broadened tax base and more effective tax collection, the fiscal situation remains fragile given the heavy dependence on oil revenues and the fact that domestic and foreign interest costs absorb no less than 65 per cent of recurrent spending and 43 per cent of the entire budget. In such a situation, there is precious little room for manoeuvre.

Last year, ill-conceived fiscal expansion jeopardised the SAP because it resulted in rapid money supply growth which in turn intensified inflationary pressures while driving the exchange rate down.

This year, the hope – and intention – is that while the budget deficit will remain far *too high* for comfort, it can be funded almost entirely by balance of payments support loans, project inflows and debt relief.

If this *can* be achieved, then money supply growth will slow and ultimately both inflation and the exchange rate will stabilise. But there are many imponderables in the equation suggesting that the risk of failure is high.

Despite a sluggish economy businesses generally fared well

Bright spot amid the gloom

LAST YEAR was another good year for Nigerian business though profit margins continued to narrow as cost escalations ran ahead of sales. Results published by 55 publicly-quoted Nigerian companies for 1987-88 show that turnover growth accelerated sharply from 17 per cent in 1986-87 to 30 per cent last year, reflecting the combination of improved access to foreign exchange and rapid inflation.

Consumer demand was surprisingly buoyant given the sluggish economy with several manufacturers reporting volume growth in excess of 40 per cent. Sales growth of 30 per cent exceeded the official inflation figure of 25 per cent but was well short of unofficial estimates putting the rate of price increases last year in the region of 40 per cent.

Accordingly, while pre-tax profits reported by the 55 companies were 20 per cent higher than in 1986-87, margins suffered. The pre-tax return on sales which reached a peak of more than 16 per cent in 1985-86, declining to 12 per cent during the subsequent year, fell again to 11 per cent in 1987-88 – the lowest figure since 1983 when it was estimated at 9 per cent.

Just how "real" these profits are is a moot point. With the steep fall of the Naira the cost of replacing machinery, plant and vehicles has escalated to the point where many companies are believed to be under-providing depreciation. It is likely too that many companies were boosting their pre-tax earnings merely by passing on increased input costs with unchanged mark-ups.

The resilience – indeed, in some cases buoyancy – of demand reflects last year's short-lived reflation of the economy, the 1988 wage awards and, of course, growing rural spending in response to increased agricultural output and prices. It was a year too in which companies with the stronger brand names and more effective marketing made *substantial headway at* the expense of their competitors' market shares.

As one industrialist puts it: "In real terms, there was little, if any, market growth which meant that those who managed to increase their volumes did so by stealing market share from the competition. It was a zero-sum game."

This year will be tougher for three main reasons. First, sales volumes are likely to fall partly because reduced foreign exchange availability will eventually mean production and sales cuts. Sales will decline too because real incomes, in urban areas at least, will fall more sharply in 1989 than at any time in the past decade, reflecting rampant inflation. At the same time, manufacturers will be passing on cost increases in the form of sharply-higher prices, resulting in growing consumer inability to maintain consumption patterns.

■ Private sector

Costs, already rising at an estimated annual rate of more than 50 per cent in some sectors, will escalate further as the Naira slide continues, while unit production costs will increase as volumes fall. As market resistance stiffens and competition intensifies, so management will seek to absorb cost increases at the expense of margins.

Third, a tighter monetary policy stance is inevitable and this will increase production costs as interest rates rise, while depressing consumer demand.

Very few companies are likely to improve margins in this situation. A further shake-out in industry is likely with small market-share competitors going to the wall. This has worrisome political implications since the market leaders, more often than not, are the affiliates of multinationals whose market shares will continue to increase at the expense of smaller-scale indigenous businesses.

This is no more than the inevitable outcome of two hard realities. First, trade liberalisa*tion has changed the rules* of the game. In the early 1980s, "political" access to import licences was a guarantee of profitability. This is no longer the case and smaller businesses who relied on patronage have suffered accordingly.

Second, as market competition intensifies – one of the positive results of deregulation – so managerial skills, especially marketing, make all the *difference* between success and decline.

TH

Sale of state-owned groups could lead to a new economic order

A formidable timetable

NIGERIA'S privatisation programme is the most ambitious in the world according to Dr Hamza Zayyad, chairman of the Technical Committee on Privatisation and Commercialisation.

He hopes to have privatised no fewer than 67 enterprises by June 1990 though this target looks to be out of reach given that, to date, only one small operation, Nigeria Flour Mills, has been completed.

The privatisation decree, gazetted in July 1988, identifies 92 enterprises with a potential market capitalisation in excess of N20bn of which 25 will be partially privatised and 67 fully privatised.

Partial privatisation means reducing the Federal Government's equity stake below 50 per cent, except in the case of the four development banks where the Government will continue to hold 70 per cent of the shares.

Full privatisation applies to a very broad range of enterprises from hotels to insurance companies and from cattle ranches to textile manufacturers. Even when the exercise is complete the Government presence in the economy will remain large with control of NNPC, majority holdings in 16 banks, and minority holdings in 31 industrial companies, including six motor vehicle assembly plants.

In addition to privatisation, 14 enterprises are to be partially commercialised and 11 fully commercialised. Commercialisation implies the establishment of profit-oriented enterprises operating without subventions from Government, which will have the authority to set their own prices, capitalise assets and borrow money.

This promises to be the toughest part of the entire operation, embracing such enterprises as Nigerian Railways, the National Electric Power Authority (Nepa) and Ajaokuta Steel Company, all of which are currently financial and bureaucratic disaster areas.

Dr Zayyad is not fazed by this challenge, forecasting that it will be possible to complete the entire exercise before the return to civilian rule in 1992. It is a formidable timetable and one which, if it succeeds, will usher in a new economic order in Nigeria.

Only one full privatisation has been undertaken so far. Last month, 6.9m shares in Flour Mills of Nigeria were put on the market at 80 kobo each – 10.6 per cent of the issued

■ Privatisation

share capital. Although it was only a small issue, designed to raise some N5.5m or $750 000, 600,000 prospectuses were distributed throughout the country in an effort to achieve the widest possible spread of shareholders.

Apart from its size, it was a surprise choice to spearhead a high-profile privatisation campaign. The profit record is unimpressive, to say the least, with pre-tax earnings having fallen from N22m in 1985 to only N13m last year: the prospective earnings yield is only 3.5 per cent and no dividend is forecast in the prospectus.

Indeed, in the prospectus, the promoters say, rather plaintively, that they "look forward to the future with hope" given the group's diversified activities which include the importation and bulk handling of cement, the milling of maize and sorghum as well as wheat, and the country's largest bag manufacturing plant supplying the cement and fertiliser industries.

Share offers of this kind, and the one planned shortly for African Petroleum, will probably be the major vehicle for privatisation, given the official emphasis on spreading equity ownership across the community.

It has been estimated that there could be as many as 30 new stock exchange listings as a result of the sell-off of Government-owned holdings. But there will also be some private placements and the sale of Government assets to existing companies.

Whether the tight timetable can be achieved is problematic. There are very real doubts on two main counts – the sheer logistics of such a massive operation and, of course, the capacity of the Nigerian capital market to absorb such a volume of new paper.

TH

Trading partner out of favour

Continued from previous page

exchange market, increase import capacity and stabilise the exchange rate which otherwise threatens to veer out of control later in the year.

It is vital, too, to promote non-oil exports more effectively than in the past, to seek debt-relief through debt-equity swaps and foster new foreign investment. The joker in the pack, as always, is the oil market. For every $1 rise in the oil price, Nigeria earns a further $400m a year in export revenues and this is a vastly preferable way of closing the foreign payments gap than new borrowings or accumulating arrears.

While the 1989 forecast payments gap is being closed by World Bank loans and associated co-financing along with aid and balance of payments support from Britain, Japan and other western donors, large financing gaps averaging $3bn annually will continue in the early 1990s.

This will underscore the need for Nigeria to keep on the side of its creditors far more convincingly than in the past and possibly even seek a soft Extended Structural Adjustment Facility (ESAF) loan from the IMF – political opposition notwithstanding.

TH

Tony Hawkins on the foreign currency auction system

Favourable exchanges

ONE OF the great successes of economic policy in 1986-87 was the use of the foreign currency auction system to liberalise Nigeria's foreign trade and payments.

The starting place was the launch of the Second-Tier Foreign Exchange System (SFEM) in September 1986 when the official rate was N1.6 to the dollar. When the auction began, the Naira promptly slipped to N4.7 to the dollar, though the average rate until the end of 1986 was higher at N3.7.

The auction operated in tandem with the official market until July 1987 when the two rates were merged, with the Naira weakening only slightly to end the year at N4.1 to the dollar. This was surprising given the decline in the size of the auction from $70m a week in 1986 to only $45m a week in 1987.

Two other markets operated alongside the auction – the interbank or so-called autonomous market and the parallel or black market. The interbank market was fed mainly by non-oil exports and invisible earnings which amounted to $1.3bn in 1987 adding a further $25m to the weekly availability of foreign exchange. About half the autonomous inflows were non-oil exports and a further 20 per cent represented invisibles.

One of the many criticisms voiced by those opposed to an auction was that it would result in scarce foreign exchange being diverted to finance imports of luxury consumer goods. That has not happened not least because Naira depreciation choked off

FOREX

demand for high-priced consumables and foreign travel.

During 1988, 65 per cent of all foreign currency was spent on industrial goods, raw materials and capital equipment while 11 per cent went on invisibles and the balance of 24 per cent on finished goods, including vehicles.

The fact that some industrialists were able to achieve 40 per cent volume growth in their sales last year highlights the extent to which foreign currency was channelled into the purchase of industry's requirements.

When the interbank market was first introduced, the auction rate applied to all transactions but two years ago this market was deregulated giving rise to a small premium in the interbank market of about 8 per cent at the end of 1987.

But last year as the auction rate started to slide, reflecting the expansion of the money supply, the gap between the two rates widened as the authorities intervened to hold the auction rate.

By mid-year, when the auction rate was being held at N4.25, the interbank rate was N6 to the dollar, representing a premium of almost 60 per cent. Although the authorities managed to force the interbank rate down later in the year, by December, when the auction was abandoned, the gap remained at 40 per cent.

A revamped foreign exchange market was launched in January with the expressed intention of establishing a unified market where the rate would be determined by market forces. That has not happened and within days of its establishment, two rates were being quoted in Lagos – an official rate, and an autonomous or parallel market one.

While there is no single agreed formula whereby the Central Bank of Nigeria (CBN) will set the rate, transactions are supposed to take place at a

Critics claimed that auctions would lead to foreign exchange being used for imports

rate determined by the demand for and supply of foreign exchange in the interbank market. In quoting its rate, however, the CBN has repeatedly come in below the market in an apparent effort to stabilise the Naira.

The central bank has announced four criteria on which it will fix the rate. These include simple and weighted averages of submitted quotations, the highest bank quotation, and "intelligence reports" on exchange rate movements during the previous day both in Nigeria and abroad. One other condition is that the rate should not move by more than 2 per cent a day.

In the first month of the system, only the market intelligence criterion was applicable since the CBN's rate was well below (ie a lower price for the dollar) those submitted by the 67 participating banks.

The immediate effect of the new system was a sharp 28 per cent devaluation of the Naira as the rate plunged from N5.3 to N6.8 to the dollar when the auctions were abandoned.

The main reason for this was the decline in the supply of foreign exchange being placed on the market from an average of $55m weekly in 1988 to $7m a day ($35m weekly) early this year. It was this reduction in funding too that gave added impetus to the autonomous rate, effectively driven underground by the new regulations. There are no precise quotes for this rate but in February bankers and industrialists estimated the autonomous rate at around N10 to N11 to the dollar – a premium of more than 40 per cent over the official rate.

Speculating where the rate will stabilise is a fruitless occupation given the variety and depth of market imponderables, but some generalisations can be offered. In the words of the central bank itself, the foreign exchange situation is precarious. *Market demand* is very strong at present while supply has been cut by a third.

Demand will remain strong unless and until the authorities take effective measures to curb money supply growth and rampant inflation starts to erode purchasing power in the market place. Both these influences are likely to materialise in the second half of 1989.

On the supply side a $1 rise in the oil price increases Nigerian's export earnings by $400m a year and if some of this were to be funnelled into the market it would ease the downward pressure on the Naira.

The other positive supply-side influence is the long-promised inflow of old funds and the $500m World Bank loan. With the disbursement of Paris Club funds likely to be delayed until mid-year or later, downward pressure on the Naira can be expected to intensify to the point where an average rate for the year of N8 or N9 to the dollar is not an unrealistic forecast at this stage of the game.

The Ajaokuta plant is likely to incur big losses

National pride sustains a costly white elephant

BLACK AFRICA'S largest steel plant continues to take shape beside the River Niger in Kwara State, despite considerable evidence that it may never be commercially viable.

In the words of a confidential government report in 1984, the project is "uneconomic, and will incur recurrent losses to the end of the century". But the multi-billion dollar Ajaokuta integrated steel complex, where work began nearly a decade ago, is kept going by a mixture of national pride and contractual commitments.

Last January Ajaokuta won a further lease of life. The Nigerian Government signed a refinancing agreement for the civil engineering work on the site being undertaken by the French companies, Fougerolle and Dumez, suspended in March 1988, when the Government fell behind on payments. Each company is said to be owed around FFr 600m (£54.5m).

Mr Bunu Sheriff Musa, Minister of Mines, Power and Steel, announced that the new deal would cover the arrears, and provide for regular future payments.

Although full details are not available, the agreement includes cover by Coface, the French export credit agency, and a pledge by Nigeria to set aside on a monthly basis enough oil to meet the cost of finishing phase one of the project – put at FFr 2.25bn.

Work to date has cost $3bn, including payments to the Soviet contractor Tiajpromexport, responsible for the design of the integrated iron and steel complex and the electro-mechanical and steel erection.

Tiajpromexport also has a payments problem. Its chief representative in Nigeria said towards the end of last year that the Government had made only one payment since 1986, and about $115m was due on current payments, as well as $370m on a line of credit.

The story goes back to 1967, when Soviet experts insisted

STEEL

that it was feasible to built a complex which would include a raw materials treatment plant, coke oven and by-products plant, sinter plant, blast furnace steel works and four rolling mills in a remote part of Nigeria.

Western engineers were sceptical, questioning the techniques and the technology, and quality of domestic coal and ore, as well as expressing misgivings about the cost of associated infrastructural work; the site is 250 miles from the ports which will handle two critical inputs – coke and iron ore.

Transporting the materials requires a new railway line and dredging of the River Niger. The blast furnace will be supplied from the iron ore deposits at Itakpe, 56 km away. A railway link is half complete.

These factors led most observers to conclude that even if the project was complete, the end product would not be competitive with European or North American steel, either in terms of cost or quality.

Western scepticism notwithstanding, the first contract was signed in 1970 for a geological survey, and Ajaokuta was selected as the site in 1975. The state owned Ajaokuta Steel company was formed four years later, and construction work got under way.

Phase One, which should produce 1.3m tonnes of steel a year, was due for completion in 1986. It is now 80 per cent complete, and the new target date is 1990. Finished work includes the billet mill, the coke oven, the blast furnace, the thermal power plant, the medium section structural mill and foundry.

Operations are running well under capacity, however. A government report covering output up to mid-1988 noted bleakly that "output was very low."

"Only two of the three mills – wire rod mill and light section mill – were in operation, and they operated at 3.5 per cent and 5.6 per cent of their respective installed capacities."

Those disquieting statistics do not bode well for what may prove to be one of the continent's most expensive white elephants.

Michael Holman

Japan is stepping up its role in Africa

The road to Tokyo

ANY DISCUSSION of Nigeria's economic predicament soon turns to the subject of the gap between what the country needs for imports and external debt servicing, and what is expected in the form of export earnings, project financing and investments. The role of Japan invariably figures prominently.

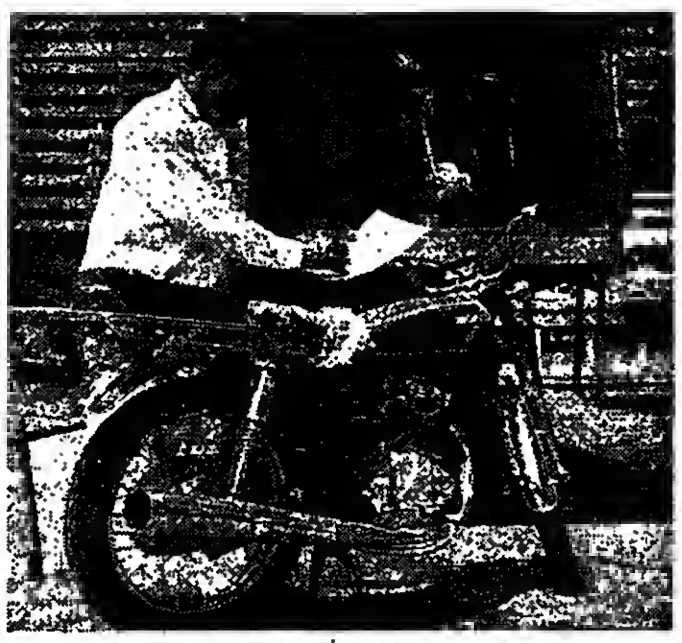
An informal aid group meeting in London put this gap at around $1.1bn for 1989, of which $500m is expected to come from the World Bank, and one third of the remainder from Japan in the form of $200m balance of payments support.

This high profile is further evidence of Japan's wish to increase its role in the continent. It is already the largest bi-lateral contributor to Ghana's economic recovery programme and is a leading donor in Kenya.

"What we want to see here in Nigeria is the sort of structural adjustment which is going on in Ghana," says Mr Takao Shibata, economic counsellor at the Japanese embassy in Lagos. "We also want to see better co-ordination between supporters of the programme such as Britain, and other donors."

But Japan is as cautious as anyone else about disbursing funds which have been committed in principle. Tokyo's offer of balance of payments support – "we have not yet given an exact figure, it could be a little more or possibly less than $200m," says Mr Shibata – has its conditions.

The first, an agreement with the International Monetary Fund, was met early in January. The second is an agreement from the Paris Club on the rescheduling of government debt. And finally Nigeria must pass the first Fund review of progress under the new agreement. The review is scheduled to take place in April.



Finished motor cycles at the Honda plant in Nigeria

The Japanese offer has been on the table for more than a year, but 1988 came and went without a Fund agreement. "Last year was wasted," says Mr Shibata. "If Nigeria had reached an agreement with the IMF the money would have been disbursed by now."

Japan is also cautious about renewal of export cover, which

AID

is also dependent on IMF and Paris Club agreements.

"I do not *think* we will go about it the same way as Britain or France, where a line of credit is opened. In our case it will be project financing, on a case by case basis," Mr Shibata explains.

Most projects would be oil and gas related: phase two of the petrochemicals scheme, the Oso condensate venture in which Marubeni and Ito could be involved, the second phase of the Onne fertiliser plant, and the multi-billion Liquefied Natural Gas facility, which is still trying to get off the ground.

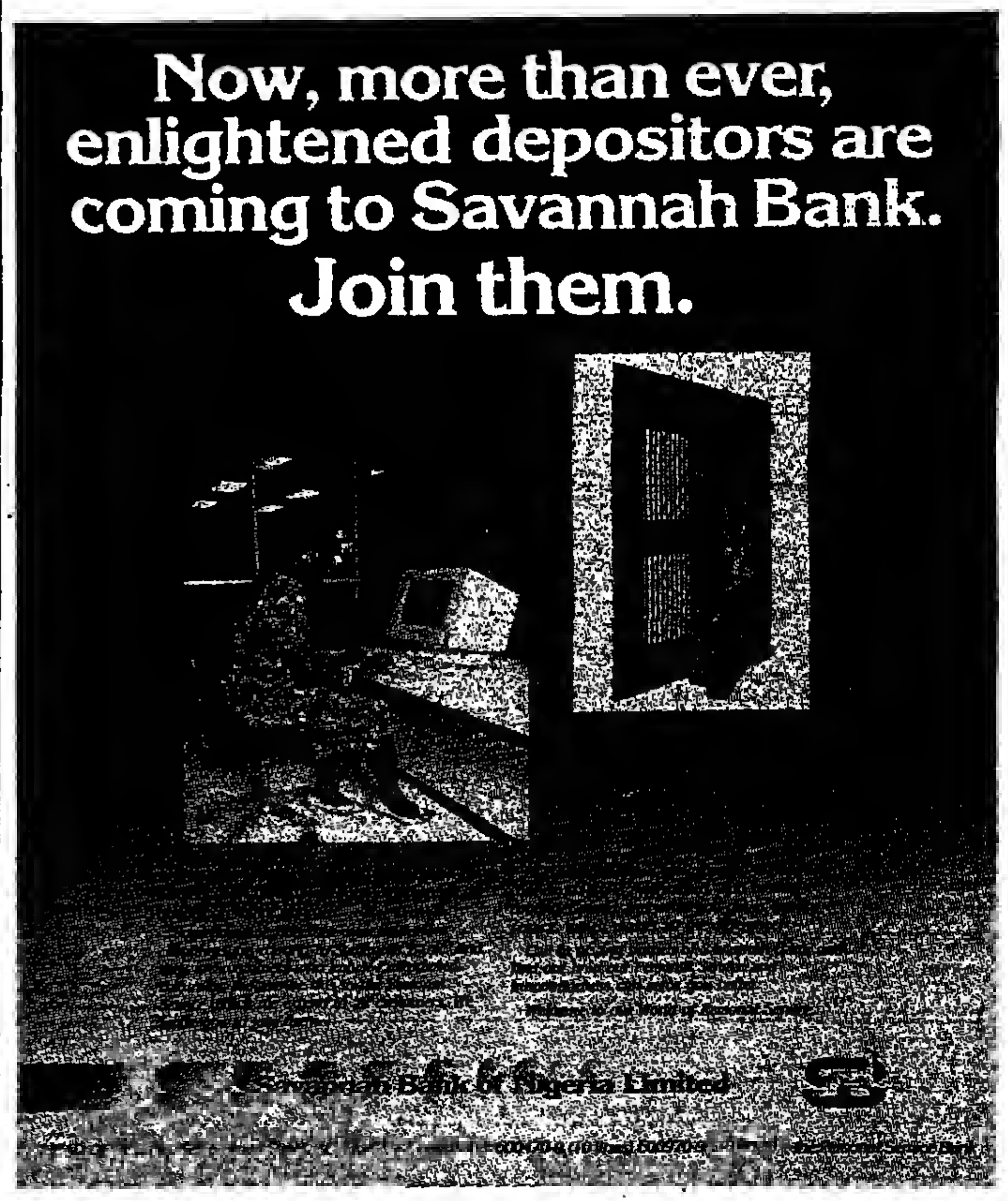
Apart from funding specific projects, Japanese banks are reluctant to lend to Nigeria. They were the last to fall into line during the London Club rescheduling, which in theory provided $200m in new lending (also delayed by the IMF hurdle).

Put it this way, says a tactful Mr Shibata: "They will not be spearheading any move to lend more, though they might eventually go along with it."

Nor is Japan likely to spearhead new overseas investment, despite the visit to Nigeria last October of a group of prominent businessmen. The recent amendment of the 1977 Nigerian Enterprises Promotion Decree, which allows foreigners to hold all the equity in most new enterprises, is not enough to overcome the numerous disincentives, ranging from erratic power supplies to haggling over the quota set by government for the number of expatriates that can be employed.

But Japan does intend to increase its comparatively modest grant aid and technical *assistance to Nigeria*, especially in the fields of health, education and other basic human needs. Grants last year reached $7.5m. Assistance in 1989 will be on a case by case basis, says Mr Shibata.

Michael Holman



■ Oil: Increased investment is critical, writes Nicholas Woodsworth

VOLATILE international oil markets and the collapse of the Organisation of Petroleum Exporting Countries'(Opec) quota production system have in the past year forced Nigeria's oil industry through a series of new development and marketing strategies. While the restoration of quotas last November has brought temporary stability to the market and improved prices for crude oil, none of Nigeria's tactics offer any clear solutions to basic industry development problems.

According to estimates by President Ibrahim Babangida in his 1989 budget address, petroleum exports accounted for some 80 per cent of total foreign exchange earnings. Many experts believe the figure is closer to 90 per cent, but acknowledge that there has been a significant fall from the 95 per cent figure which has been regularly cited since the 1970s. Part of the change is due to last year's fall in oil prices and consequently smaller revenues.

What proportion of those earnings should be pumped back into the oil industry through the Nigerian National Petroleum Corporation (NNPC) and what part should be allocated to other hard-pressed sectors has always been a contentious issue among Ministers and budget planners.

Dependent for maintainance and project funding on federal government decisions, NNPC has seen its investment capacity fall in recent years. At the end of the 1970s, it was able to maintain a production capacity of 2.4m barrels per day (b/d); today its capacity has dropped to 1.8m b/d.

Limited through Opec membership to a production quota of 1.35m b/d, Nigeria is caught in a vicious circle created by a lack of investment funds. Without adequate financing it is unable to undertake projects designed to diversify and expand its hydrocarbon industry. Without the successful completion of these new projects, it is unable to generate profits.

Domestically, the Government has attempted to break this circle by reducing consumer subsidies on fuels that are sold well below world market prices. The issue, however, is politically a highly sensitive one.

The Government, however, is persisting with its policy, and in January introduced a two-tier petrol pricing system, which, while maintaining the previous price of 42 kobo per litre for commercial and public transport, has raised the price for users of private vehicles to 60 kobo.

Externally, the Government has attacked the problem by attempting to raise revenues through a negotiated increase in its Opec quota. In discussions with his Opec colleagues Petroleum Resources Minister Mr Rilwanu Lukman, now in his sixth consecutive term as Opec president, has argued that Nigeria's proven reserves and production capacity entitle it to a greater share of total Opec production (currently 7.3 per cent of a total of 18.5m b/d).

In the meantime, the Petroleum Minister, in pursuit of this strategy, is attempting to raise Nigerian capacity to 2.5m b/d and proven reserves from 16bn to 20bn barrels. Negotiations with Opec, however, are unlikely to be successful.

In view of the constraints on raising capital through increases in domestic fuel prices or its Opec quota, NNPC has opted on a third course: downstream development in the energy industry both at home and abroad.

By last month NNPC had held discussions with representatives of more than 70 foreign refineries on equity purchase in their plants. For over a year now, NNPC has given high priority to the acquisition of overseas refining capacity in an attempt to maximise profits and minimise sales risks in periods when crude oil prices are depressed.

Despite ongoing negotiations, NNPC has yet to make such a purchase, although there are reports that an agreement giving NNPC a majority stake in the Irish National Petroleum Corporation's refining facilities may shortly be signed.

However, many industry observers say the refinery purchase policy is mistaken; most of the refineries for sale are outdated and too basic for today's sophisticated product requirements.

Domestic downstream development offers Nigeria perhaps its greatest opportunity for increasing national revenue, but it too is strewn with problems. President Babangida has stressed the need for diversification in the hydrocarbon industry, and placed particular emphasis on the development of a gas-based export industry. In addition to joint-venture projects to export liquefied natural gas and gas condensate, there are also plans to develop a gas-based petrochemicals industry and a natural gas collection and distribution system that will eventually supplant oil-based fuel use.

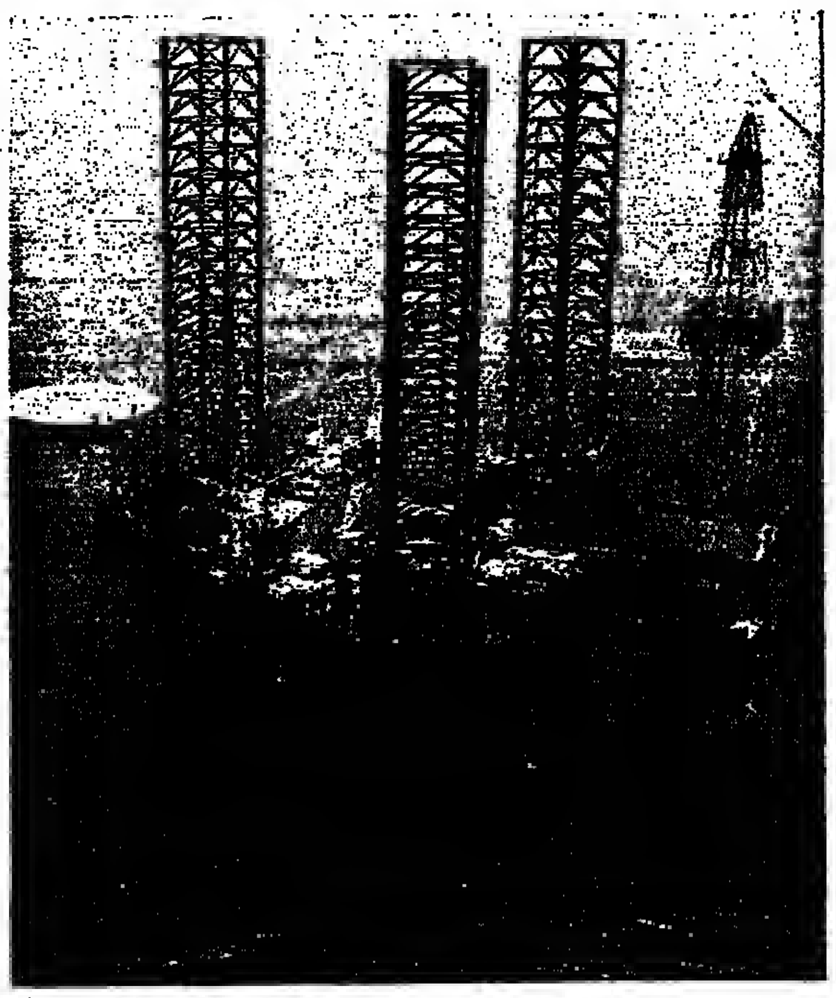
Although they are critical to the future of Nigeria, the success of these projects is not assured. The country's economic condition and its record on debt repayment have not helped to convince potential foreign backers of the viability of large-scale investment.

Volatility on international markets has also led to unstable relations with buyers of NNPC's crude oil. The decline in spot market prices consequent to the Opec ministerial meeting of December 1987, forced Nigeria to reconsider its policy of adhering to Opec's official selling price. It cancelled 40 sales contracts based on the higher, unattractive Opec price, and negotiated new contracts with nine European and American oil companies. These were based on a "net-back" formula determined by the market price of products.

For the first six months of 1988, the new contract buyers were satisfied with the agreement; netback prices for crude oil worked out at between $2 and $3 a barrel lower than crude sold on the spot market. But the contract buyers were less happy when spot market prices began to plummet in the second half of the year after markets were flooded with Middle Eastern oil produced over quota (Nigeria also exceeded its quota by up to 300,000 b/d.) The situation was reversed and netback prices exceeded spot market prices. Forced to forego opportunities to buy cheaper oil, the buyers began arguing for a review of the netback system.

The situation was reversed once again following the restoration of Opec quotas at the end of last year and the consequent climb in spot market prices. In the new year NNPC was losing money by selling netback oil at less than spot. At the end of January it finally decided to abandon the netback formula and sell only at spot prices. NNPC and its customers have decided to review the new spot pricing agreement at the end of the first and second quarters, but the quota system and threats to its stability in the Middle East make it difficult to predict the next step.

Relations with Nigeria's equity partners, who hold up to a 40 per cent share in NNPC joint ventures, on the whole remain even. There is satisfaction on both sides with the compromise "realised price" system under which equity partners lift Nigerian oil, while the $2 a barrel profit they are guaranteed under the 1986 "Memorandum of Understanding" has proved sufficient incentive to NNPC's foreign partners for the reinvestment of profits. One major obstacle to exploration and development is that NNPC is unable to raise its share of equity in new joint venture projects.



Mobil's Trident IV drilling platform off the coast of Nigeria

Lagos follows the pack downstream

A viable domestic power source has emerged

Untapped resources

WHEN THE lights went out not once, but twice during a state banquet in Kano last year, plunging Flight-Lieutenant Jerry Rawlings of Ghana and his host President Ibrahim Babangida into the dark, the *event was embarrassing* enough to rate front-page coverage. But for ordinary Nigerians going about their everyday lives, daily black-outs, load-shedding and the wholly inadequate supply of power to homes and industries is hardly worth mentioning.

There are few factories or hotels in Lagos that have not invested in emergency generators. Any middle-class Nigerian who can afford it has a diesel generator ready and waiting behind his house. And for the millions who can't afford that luxury, kerosene lamps and candles are the only alternative.

After decades of limping along, the Nigerian domestic *energy industry has begun* looking at a viable power alternative, one that it has been sitting on all along. Nigeria ranks fifth in the world in natural gas resources. Until now it has paid so much attention to lifting oil for export it has almost entirely ignored its natural gas reserves, far larger in energy-equivalent terms than remaining amounts of crude oil, now estimated to last about 40 years.

Nigerian proven and probable gas reserves are estimated at roughly 2.6 trillion (million million) cu m – more than 15 times the current annual consumption of the UK, Germany, Italy, France, Belgium and Spain put together.

Most of this gas has been found in the search for oil. One of the greatest ironies in this power-strapped country is that the associated gas flared at oil-field well-heads is equivalent to nearly half the nation's *current energy demands. It is* likely that far greater reserves of non-associated gas remain to be discovered.

Until oow the largest proportion of Nigeria's energy needs have been supplied by oil-powered thermal generators and the county's three hydro-electric plants. According to the World Bank, natural gas and bottled liquid petroleum gas (LPG) was by the mid-1980s meeting no more than 3 per cent of domestic needs.

This picture is now slowly changing, and if Nigeria's emerging gas developmeot plans are implemented, it will by the next century have transformed not only its domestic energy base but also its export-orieoted hydrocarbon industry. Gas, according to the Nigerian National Petroleum Corporatioo (NNPC), is now viewed as "a major revenue earner and the pivot of our future economy."

The greatest obstacle to the exploitation of natural gas is Nigeria's lack of financial resources; foreign exchange earnings from oil channeled back into the energy sector are devoted to the maintainance of crude oil production capacity and the development of reserves.

■ GAS

Of the 18.7bn cu m of associated gas brought to the surface in 1987, more than 70 per cent was flared due to the prohibitive cost of the infrastructure required for its utilisation or reinjection.

Nooe the less, efforts are now being made to raise the capital for what is becoming a long list of gas-based projects. In his 1989 budget speech, President Babangida identified four such undertakings, giving them high priority in an effort to diversify Nigeria's hydrocarbon exports and ensure on-stream productioo by the mid-1990s.

in addition to a scheme to use gas as an energy source in the local smelting of alumina – a project some industry analysts see as economically unrealistic – NNPC will concentrate on liquefied natural gas and condensate projects being undertaken with its foreign equity partners, and a petrochemical production plant using gas feedstock.

These projects are expected to become major foreign exchange earners. Emphasis, however, is now also being laid on gas as a source of energy to foel domestic industries. Switching to gas, says NNPC, would oot only free significant amounts of oil-based fuels for export, but cut companies' energy bills and capital costs on generators.

In January President Babangida pledged N2bn to the development of a domestic gas industry over the next five years. Efforts will concentrate not on expensive systems of recovery of associated gas, but on the more economical development of unassociated natural gas fields and pipeline distribution systems.

One such project has already been realised. Last November the long-awaited 355 km Escravos-Lagos natural gas pipeline was commissioned. In January, its main source of supply, the $70m Otorugu gas plant, came into production. The system, using gas from the Otorugu fields, now provides Lagos's Egbin *thermal power plant* – the largest in the country – with a daily delivery capacity of 7.61m cu m of gas.

While the potential for the domestic use of natural and liquid petroleum gas is great, it is unlikely that adequate financing for projects will emerge unless the Government brings out a coherent gas developmeot policy.

At the commissioning of the Otorugu gas plant President Babangida called on local and *foreign* investors from both the public and private sectors to lend their support in making gas the most commonly used fuel in the country. But if financial backers are not given adeqoate returns on their investment through higher gas prices, projects will not get off the ground.

The price of gas, when compared with NNPC's low tariffs on fuel oil, is currently seen as being too high by industrial users and the Nigerian Electric Power Authority; they complain that consumers should derive full benefit from such an abundant resource. While the NNPC has recommended substantial gas price increases to the federal government, the issue remains a highly sensitive one politically.

While promises have been made, the Government has so far failed to issue a development and pricing policy balancing the needs of gas producers with those of consumers. Until adequate inceotives for the industry are created, the planned nation-wide network of gas wells and pipelines may remain mere pipe-dreams.

Nicholas Woodsworth

The Government's big petrochemicals drive is facing problems

New sector's tough debut

■ Petrochemicals

IN THE rich, flat delta-land of Rivers state, agriculture and the oil industry sit side by side. Here the night eky glows orange and tall groves of coconut palms and banana trees are illuminated by the roaring gas flares of surrounding oil-fields.

At Eleme near Port Harcourt, these two traditional sectors of the Nigerian economy are now being joined by a third, new, activity intended to boost Nigeria's under-developed domestic industries. After almost a year's operation of the smaller Phase I petrochemicals project at the Nigerian National Petroleum Corporatiou's (NNPC) Kaduna and Ekpan plants, initial work on the Eleme Phase 11 Project, designed to widen the range of existing petrochemical production, is now under way.

Both Phases 1 and II of the country's newest industry are intended to promote import substitution and save foreign currency. While oil and natural gas — the raw materials of petrochemical production — are plentiful in Nigeria, domestic producers of tyres, plastics, solvents, detergents and paints have in the past relied wholly on petrochemical imports.

With Nigerian manufacturers finding it ever more difficult to obtain foreign exchauge, petrochemical demand has far outstripped supply and many plants operate well below capacity. Phase 1, however, went into commercial prodnction in March last year and NNPC is now marketing carbou black and linear alkyl benzene (LAB). By 1992, when the Eleme project is due to come on stream, NNPC expects to be eupplying 100 per cent of the country's polypropylene and polyethylene needs.

Nigeria's initial steps in petrochemical productiou have not been trouble-free. The Ekpan carbou black plant, designed to produce 18,000 tonnes a year, is running at only 60 per cent capacity.

Carbon black is a major component in tyre manufacturing. NNPC's carbon black prices are competitive wheu compared with the cost of landed imports and offer buyers the additional advantage of paying in Naira instead of foreign currency. Nevertheless, the plant's main customers, the Nigerian associates of Dunlop and Michelin, continue to source significant proportions of their carbon black needs from overseas.

This is because NNPC prodnces only three of the five hard grades of carbon black required for tyre manufacture, and cannot widen the range without considerable expense. Hopes for increased sales of existing grades are now pinned on plans for a new Dunlop tyre plant to be constructed in neighbouring Benin.

Phase I inclnded the construction of a polypropylene plant at Warri with a 35,000 tonne per year capacity. While there is no lack of customers seeking polypropylene for the production of plastic bags, crates and household utensils, no polypropylene has been produced in Nigeria since last November. This is because of a breakdown of the Warri plant's fluid catalytic cracking unit and a consequent lack of vital catalyst for polypropylene production. Only the LAB plant, which provides base material for such detergent manufacturers as Paterson Zochonis and Lever Brothers, is running near its full 30,000 tonne per year capacity.

Worker on Mobil's Asabo platform off the coast of Nigeria

The Phase II Eleme project has also had its share of problems. While backed by a Stanford Research Institute feasibility report and provisionally supported by the World Bank, the $800m undertaking, like many other downstream energy projects in Nigeria, has had difficulty in finding financial backers.

The project is a scaled down version of a more sophisticated, $4bn export-capacity project proposed in 1986 but rejected by the World Bank as unviable given international market projections for the 1990s. The new version, designed for the domestic market, will produce 250,000 tonnes of polypropylene and 80,000 tonnes of polyethylene annually, nsing gas-based feedstocks from the Agip fields.

Recent surveys indicate that current domestic consumptiou levels of these two prodncts will absorb only 60 per cent of planned output. NNPC plans to export tha remainder, but counts on domestic demand rising to meet cspacity in the five years following the plant's projected completiou date.

Dr Thomas John, head of NNPC's newly created Eleme Petrochemical Company, defeuds the project against critics who question its economic viability. "Investment amounts required to produce finished polymer products in Nigeria are relatively small, as raw materials as well as the installed capacity to process the resins we will produce are already here."

Dr John points out that currently only 45,000 tonnes of polypropylene are being imported and used in Nigeria eacb year, while existing plants are capable of processing 120,000 tonnes.

Despite the fact that Nigeria's economic difficulties have made commercial banks reluctant to back the Phase II project, NNPC has awarded preliminary design contracts and initial work has begun. Contractors include Spie Batignolles of France, Technimont of Italy, and two Japanese companies, Chiyoda and Kobe Steel.

The World Bank, a uewcomer to financing in the energy sector, has in principle agreed to assist the project, provided that NNPC incorporates it as joint venture with partners from the private sector. The International Finance Corporation (IFC) — the private commercial arm of the World Bank — has sought equity partners on behalf of NNPC, and Dr John now lists three project contractors — Technimont, Chiyoda, and Kobe Steel — as future equity partners.

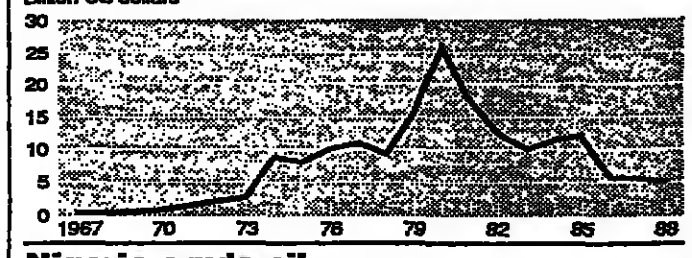
Although a financing package has not been finalised — IFC officials will be meeting later in March with NNPC to discnss final joint venture offers — Dr John is confident of a successful outcome. He says some 85 per cent of project costs will be raised by NNPC's joint venture partners through a consortium of six major Japanese trading houses. NNPC reports that a proposal ou a provision of funds has already been signed, and that the Nigerian Ministry of Finance is currently studying a draft loan agreement.

Some financial specialists, however, are less confident that financing uegotiations will be rapidly concluded and predict further difficulties. Of critical importance is the contractor's ability to persuade potential Japanese backers to accept the interest payment terms being offered. Only if the current crucial financing obstacles are overcome does Nigeria stand a chance of embarking on the road to petrochemical self-sufficiency.

Nicholas Woodsworth

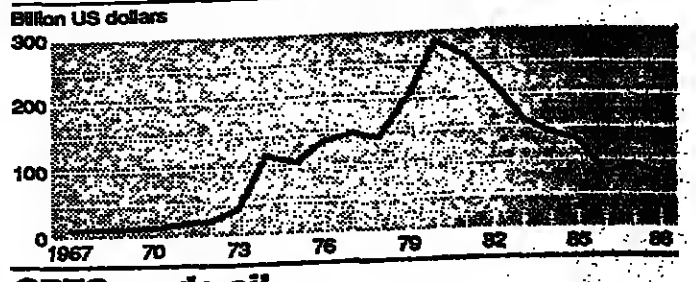
Nigeria petroleum exports

Billion US dollars



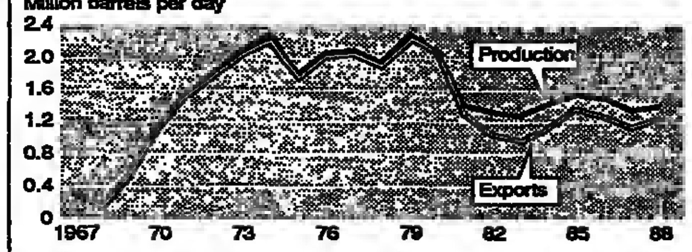
OPEC petroleum exports

Billion US dollars



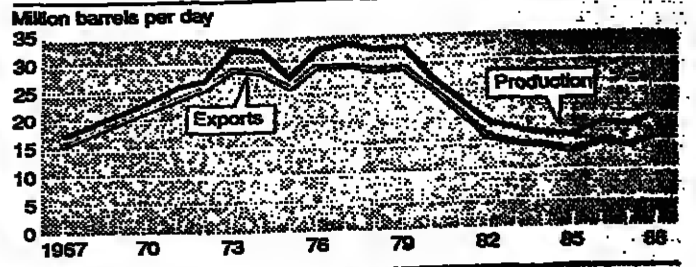
Nigeria crude oil

Million barrels per day



OPEC crude oil

Million barrels per day



Nicholas Woodsworth on a condensate project awaiting backers

A field worth ploughing

SEVENTEEN miles from the shoreline of Akwa Ibom state, hidden under 18m of water and 3,000m of earth's crust, lies one of Nigeria's brightest hopes. Cited by President Ibrahim Babangida in his 1989 budget address as ona of four gas-based projects receiving top priority in the effort to diversify hydrocarbon exports, the Oso condensate field represeuts poteutial foreign exchange earnings of more than $500m a year.

An entirely feasible undertaking in technical terms, the implementation of the $880m project now hangs, somewhat uncertainly, on the successful completion of negotiations for foreign financial backing.

Condensate is a hydrocarbon which in its natural underground state is a gas. Undergoing pressure changes wbeu brought to the surface, it partially condenses to form a liquid/gas mixture from which a stabilised liquid can be separated. This condensate differs from crude oil in its molecular gravity, having an American Petroleum Institute (API) rating of between 48 and 52 degrees, considerably higher than the lightest crudes. Nigerian Bonny Light, for example, one of the lightest grade crudes produced anywhere, has a much lower API rating of 37 degrees.

The distinction is important, for under the current rules of Opec, of which Nigeria is a memher, coudensate is not classed as a crude oil. Like some crudes, it is used in the productiou of light-end fuel products, but it is not subject to Nigeria'e Opec quota of 1.35m barrels per day (b/d), and can be exported in unlimited quantities.

■ OSO FIELD

For this reasou it is attractive as an export to both the Nigerian National Petroleum Corporation (NNPC) and Mobil Producing Nigeria, NNPC's technical and financial partner in the venture.

The Oso field was discovered more than 20 years ago, and in the early 1980s feasibility studies were undertakeu for the field's development. Mobil dropped tha project, however, when tha studies revealed that under rules then pertaining to equity partner veutures, Mobil's returns would not have justified development.

It was only after the signing the 1986 Memorandum of Understanding guaranteeing equity partners a profit of $2 per barrel that Mobil once again renewed its interest.

Under the present agreement, NNPC will finance and own a 60 per cent interest in the Oso project, while Mobil will provide 40 per cent and technical leadership.

In addition to marketing its own share of coudensata through Mobil refineries, the company will also market half of NNPC's 60 per cent share of condensate for five years following project commissioning, targeted for 1991. The balance will be sold by NNPC.

Project components comprise seven off-shore platforms for drilling and processing, 120 miles of pipeline, and on-shore storage and loading facilities at Mobil's Qua Iboe terminal. Recovery mechanisms include a high-pressure gas reinjection system that will bring North Sea technology to Nigeria for the first time. Recoverable reserves are estimated at 445m barrels, of which 100,000 b/d are expected to be lifted for the first five to seven years of production. The total life of the field is estimated at 25 years.

The coudensates market is buoyant and the project has a rapid pay-back rate. None the less, Nigeria's relationships with its foreign creditors and the current climate of economic uncertainty have made investors reluctant to become involved.

In late 1987 an Oso Finance Committee (OFC), made up of representatives from Mobil Producing Nigeria, the NNPC, and the Nigerian Ministries of Financa and Petrolaum Resources, was charged with seeking an international financing package. The committee has since received assistance from the World Bank-affiliated International Finance Corporation (IFC) which is acting as a financial co-ordinator for the project.

The IFC has in addition pledged a $60m loan to Mobil for its share of equity participatiou in the venture. The World Bank, for its part, has promised $150m to NNPC. Without these loan commitments, intended to reassure the international lending community of the viability of the project, it is unlikely that others would follow.

In September 1988, the World Bank and the IFC co-sponsored a lender's meeting in Paris to which British, Japanese, French and Italian export credit ageucies and export banks were invited.

According to Mobil Nigeria's vice chairman, Mr Alfonsus Alukoya, "the indications are positive". However, while all project design has been completed and construction tenders went out last December, it is uncertain whether the target date of July for the loan-package signing will be met.

Nicholas Woodsworth on an oil giant's overhaul

Painful turnaround

ONLY A few years ago the Nigerian National Petroleum Corporation, in the opinion of foreign oil executives working in Nigeria, was almost everything an oil company should not be. Three comments serve to illustrate the point.

"The NNPC is an enormous, complex body that controls every aspect of the oil industry in this country from production to distribution at the terminal gate," says a senior company representative. "For much of its existence it has been a wasteful, inefficient and non-profit-oriented organisation that in a competitive situation could not have survived."

"NNPC's division of operations was in the past so ill-defined that it was almost impossible to figure out profit and loss in any one section of activity," a financial consultant notes. "And when we thought we had loss-making areas identified, there were no structures to regulate them."

"NNPC suffered from a lack of clearly delegated authority," says another company executive. "One consequence was that decision-making floated upwards. Without adequate briefings, those at the top of NNPC made bad decisions."

While these same observers would not deny that there is still much room for improvement in NNPC today, they all agree that in the recent past considerable progress has been made in turning the corporation around.

The commercialisation of NNPC, a process now in its third year, may never change the corporation into a streamlined and highly efficient western-style company. But after only a short period it has been recognised both in and outside the NNPC as having already provided the basis for greater efficiency and more profitable operation.

NNPC commercialisation began in mid-1986, in keeping with Nigeria's structural adjustment objectives of transforming heavily-subsidised, loss-making parastatal corporations into financially autonomous bodies run on a profit and loss basis.

Unused to a competitive environment and without the necessary structures, NNPC was obliged to undergo complete structural reorganisation. Attitudes to efficient work and productivity have also had to be addressed.

Such a profound shift is a long and complex process, and has taken place in trying economic conditions. None the less, NNPC moved over to fully commercialised operations in January 1988.

"NNPC has changed its perspective", says Mr Alhaji Sani Bello, deputy managing director of operations. "Before, we were merely service-oriented and spent money without regard to commercial viability. Now we provide services only on a commercial basis. Spending is based on the criterion of return on investment; if we don't have a minimum return, we will not invest. Business is not at all like it used to be."

■ NNPC

NNPC today is divided into three main areas of operation: a corporate branch, responsible for financial and administrative affairs; an external management branch handling all relations with NNPC's equity partners, including exploration, joint ventures and crude oil marketing; and an operations branch composed of eight subsidiary companies responsible for NNPC's domestic commercial operations.

It is in these companies that the commercialisation of services and products is most prominently playing its new role. All subsidiaries have separate financing arrangements within the umbrella organisation, both in terms of special project financing and the issue of dividends, but each is financially accountable for its operations. The operations division comprises:

■ The Nigerian Petroleum Development Company. The NPDC, in contrast to NNPC joint venture operations with its foreign equity partners, is 100 per cent nationally-owned and is responsible for the production of crude oil on NNPC's own concessions. It is also undertaking exploration in remoter, inland areas of Nigeria where NNPC's equity partners are not active.

■ Integrated Data Services. The company provides seismic, geophysical, and data services to NNPC and joint venture operations. It will also undertake work for oil companies abroad and has recently conducted seismic studies for the Ghanaian National Petroleum Corporation.

■ Nigerian Gas Company. NGC is the concern most involved in a recent effort to develop a domestic gas industry using Nigeria's huge gas reserves. It has undertaken several projects in the Warri and Escravos areas, and supplies gas feedstock to the National Fertiliser Company of Nigeria at Onne near Port Harcourt.

■ Nigerian LNG Project Company. NNPC is collaborating with Shell, Agip, and Elf on a $2.5bn project for the production of liquefied natural gas to be sold on the European and US markets from 1995.

■ The Warri, Kaduna, and Port Harcourt Refining Companies manage Nigeria's three established refineries, all of which have experienced management and production problems in the past. A recent fire has seriously affected production at the Port Harcourt refinery. Warri and Kaduna refineries have had troubled histories and both are slated for World Bank funded rehabilitation projects. A fourth refinery, in Port Harcourt, is due for commissioning in May, and will provide Nigeria with export capacity.

■ Pipelines and Products Marketing Company. This is NNPC's products marketing arm. It buys oil from the corporation's Crude Oil Marketing Company, processes it through NNPC refineries for a processing fee, and sells the products domestically through eight major and 400 independent distributors. It controls three of the eight large distributing companies, but is planning divestiture from all of them.

It is too soon to tell if NNPC's commercialisation will lead to consistent, higher performance over the long term, but NNPC, in moving towards a more market-oriented approach, is in better shape than it has been for many years. Another factor aiding this improvement is the expanding managerial experience of NNPC director Mr Aret Adams.

NNPC now seems to have a better idea of where it is going. Whether or not it gets there will be partly due its own efforts. Much also depends on Nigeria's uncertain political and economic future.

■ **Agriculture:** Economic incentives are producing results, writes **Stephanie Gray**

Radical rethink bears fruit

AGRICULTURE, long a neglected sector of the Nigerian economy, continnes to make gains as a result of policies adopted under President Ibrahim Babangida's Structural Adjustment Programme. While rural infrastructure remains weak and standards of living low, agricultural producers have responded to economic incentives and are beginning to enjoy more substantial benefits.

Structural adjustment efforts have produced more immediate and positive results in Nigeria's agricultural sector than in any other. This has been dne to three measures taken by the Government since 1986.

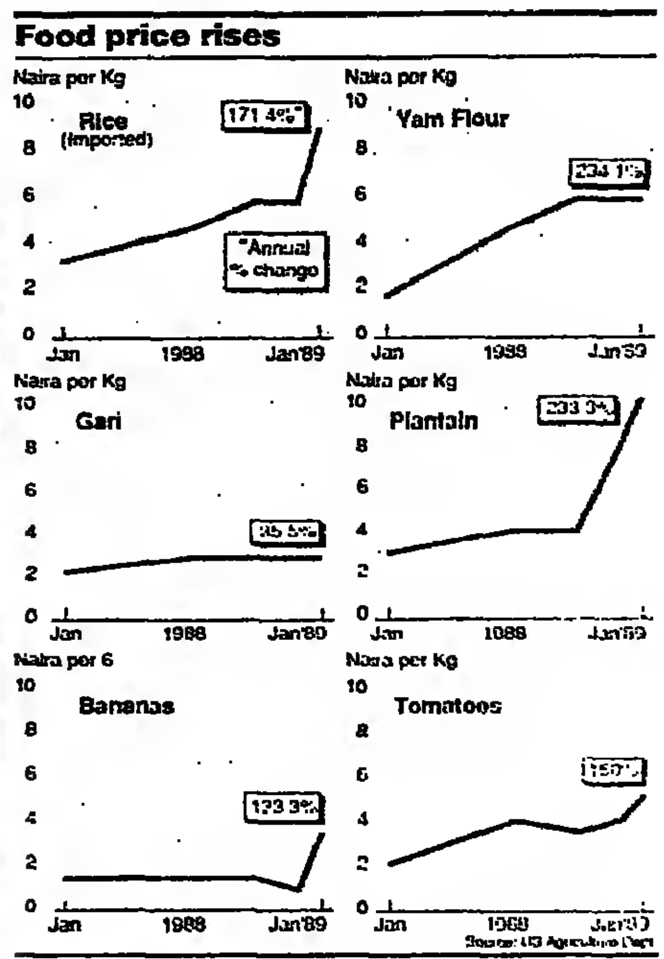
In that year the administration abolisbed Nigeria's agricultural marketing boards, removing artificially low, fixed producer prices and allowing cash crop farmers to sell their produce at market-determined rates. Deregulation has led not only to dramatically higher prices for snch crops as ground-nuts and cotton, hnt also in the past two years to significant increases in acreage under cultivation.

The ongoing process of Naira devalnation, begun two-and-a-half years ago, has provided a tremendous boost to the sale of export commodities. Despite slumps on world cocoa markets, receipts from Nigerian cocoa sales in 1988 were more than double those of the previous year. Cocoa sales last year totalled N3.7bn, accounting for 75 per cent of Nigeria's non-oil export earnings. Palm oil and rubber producers have also seen increased hard currency sales.

A third radical measure stimulating agricultural production has been the controversial ban on the import of wheat, rice, maize and barley. Designed to promote import substitution and save well over $500m in hard currency a year, the ban has forced a return to traditional local staples such as yam, cassava, millet and sorghum, all of which have consequently seen a rise in producer prices.

Despite problems witb the smuggling of grain into the country, the ban has also been responsible for increased domestic grain production, and the entry of breweries, milling companies, and food processors into the agricultural sector.

Woman frying sifted cassava. The staple food took on new importance after a 1987 wheat ban forced up the price of bread



Market-related pricing, Naira devaluation, and the ban on grain imports have brought incentives and much-needed relief to agricultural producers; the reverse side of the coin is that consumers, particularly those in urban areas, are having to pay a great deal more for food.

Despite excellent rains and bumper barvests last year, prices have risen sharply. Since the imposition of the wheat ban, the cost of bread has gone up by 2000 per cent, turning it into a rich person's food. But even common staples such as cassava and yam have more than doubled in price in the past year, and claim an ever larger proportion of family incomes. Rising inflation has pushed up the cost of living across the board, but no price increments resulting from government policies have been so clearly identified and resented by urban working and middle-class consumers as those related to food.

One effect of the high cost of urban life has been that the drift of large numbers of rural Nigerians to the cities bas stopped. There are oo real signs, however, that the trend has been reversed. While the Government continues to give high priority to rural development, the widespread lack of such basic services as clean water supplies, electricity, transport, schools, and public health facilities have meant that standards of living and productivity among millions of Nigeria's small farmers remain low.

In 1986 the Government created the Directorate of Food, Roads, and Rural Infrastructure (DFRRI) as the main instrument for the implementation of its agricultural policy. Given a mandate to improve rural conditions, it was generously funded in 1988 with well over half of Nigeria's N850m agricultural budget. It is now generally acknowledged, however, that the DFRRI's performance has fallen well below expectation.

By President Babangida's own admission, the directorate by the end of last year was "beginning to lose its bearings". Apart from allegations of financial misappropriation and poor management, its claims of material achievement have been contested: numerous wells sunk by DFRRI have failed to produce water; electrification projects have come to a halt for lack of inputs; and more than half the feeder roads it has constructed have been rejected as snb-standard.

In conjunction with an inadequate provision of extension services to a wide range of DFRRI agricnltural programmes, these failings have led many observers to believe that the directorate has not accomplished a great deal more than previous rural development programmes implemented under other administrations.

State-run Agricultural Development Programmes (ADPs) remain the largest donor-funded projects in the Nigerian economy; the World Bank is currently financing a $1.06bn ADP aid programme in all but one of the states. While the ADPs are regarded as better supervised and more efficient than the DFRRI, their performance, too, have beeo affected by a lack of local expertise in management and extension services.

The second largest foreign donor to Nigeria is the European Community. It has also concentrated on agriculture.

Continued on following page

Nigeria's premier gas-based project is finally exciting investors

Future that holds out hope

NIGERIA'S liquefied natural gas (LNG) project, the flagship of a first generation of gas-based export industries, appears to be finally overcoming its most crucial obstacle – securing guaranteed markets.

Unlike many other undertakings on the Nigerian National Petroleum Corporation's (NNPC) long list of projects designed to broaden the range of domestic and export-oriented activities, the LNG project's overriding concern has not been financing; once long-term contract buyers in the West have been found, industry specialists believe that the international financial community will show confidence in the project. In the past year considerable progress has been made in securing markets in Europe and the US.

■ LNG

The history of Nigeria's efforts to develop LNG goes back more than 15 years. The project was originally based on the construction of a massive, five train liquefaction plant costing $4bn, but changes in government, joint-venture policies and international market conditions repeatedly defeated the undertaking. New plans for an LNG facility, described by Mr Rilwann Lukman, the Petroleum Resources Minister, as one of the highest priorities in his ministry, were initiated in 1985 on a more modest scale.

Today's project, now estimated to cost between $2bn and $2.5bn, is the result of a deal reached between NNPC and three of its equity partners operating in Nigeria – Shell, Elf and Agip. NNPC will have a 60 per cent interest in the venture, Shell 20 per cent, and Elf and Agip 10 per cent each. Shell,tbe largest foreign oil concern in Nigeria, will provide technical leadership.

The project partners bope to have LNG buyers, contracted on a 20-25 year basis, signed by early 1990; only then could financing arrangements be finalised. If all goes well, main construction contracts will be awarded in mid-1991, and the first LNG shipment will be delivered in the beginning of 1995. Shell has already taken ont options on five existing LNG carriers that were mothballed in 1980, immediately after construction, to ship the gas to overseas distributors.

Nigeria'a potential LNG market was originally seen soley in European terms. After two-and-a-half years of negotiations with a wide range of European distributors, during wbich progress was slow and erratic, project teams turned their attention to the east coast of the US. "Negotiations with US companies are only nine months old yet now we are almost at the same stage with them as we are with the Europeans after three years," a Shell LNG project notes.

Four European companies have so far given assurances they will sign contracts for specified annual quantities of Nigerian LNG. The European commitment to LNG purchases is currently 52 per cent of the total; the balance is being bid for by US buyers.

The project partners are at the same time directing efforts to raising finances for the venture, of which 30-40 per cent will be met by equity participation and 60-70 per cent by loans. NNPC has established an account earmarked to finance start-up costs and capital requirements.

In May 1988 a project team took a loan-raising "road show" to Paris, Washingtoo, and Tokyo, wbere they met representatives of multilateral and export credit agencies, as well as commercial banks

The response was reportedly encouraging, althougb no details have yet been released. There have also been signs that the World Bank will lend its support if necessary.

Nicholas Woodsworth

Producers benefit from price liberalisation

Farm fortunes improve

NIGERIA'S COCOA farmers have never had it so good. The first boost to their fortunes came in 1986 when the Government abolished the Cocoa Marketing Board as one of the reforms implemented under the Structural Adjustment Programme.

For years growers had been obliged to sell to the Board at prices below export value. The difference paid for the organisation's bureaucracy. Abolition meant that growers could sell in an open market.

Prices rose from between N1,000 and N1,600 a tonne to between N5,000 and N6,000 and rose still further as the Naira was devalued.

Cocoa became a major export, earning more than $200m last year. But towards the end of 1988 domestic prices received a further boost. Farmgate prices which stood et N7,500 a tonne at the beginning of last October soared to N18,500 by early December. The domestic price however bore no relationship to what was happening to the world cocoa market.

Legitimate businesses, like

■ COCOA

Cadbury Nigeria, determine their domestic purchase price according to the official exchange rate. But other buyers have been prepared to pay massive premiums for any export crop and leave the proceeds *in overseas accounts.*

Thus graded beans were selling for N18,500 (about £1,500) a tonne in December when the London price was ranging between pounds N600 and N900 a tonne.

"It was an absolutely incredible situation," says Mr Dick Clarke, executive deputy chairman of Cadbury Nigeria. "We would agree a price with a farmer and come back to collect to find that we'd been gazumped three times in the course of e day." It was at this stage that legitimate traders stopped buying Nigeria's largest non-oil export commodity.

A further factor was at work. Speculators acted on rumours that the Government was planning to merge the autonomous and foreign exchange markets leading to a further effective devaluation of the Naira. The rates were merged in the new year budget, and speculators made a quick profit.

Further upward pressure on the prices came from other speculators who were desperate to buy the main crop for different reasons. Earlier in the year, having taken np hundreds *of tonnes of mouldy* cocoa, they were anxious to try to disguise its poor quality by blending it with the excellent beans from the main crop.

Many operators, however, must have been badly hit by a drop in world prices for the commodity, brought on by the threat of the Ivory Coast, the world's largest cocoa producer, to put its huge surplus onto the market.

While none of the big players in the Nigerian market would suggest that the Government reinstate the Cocoa board, they despair at the chaos that has followed its demise and welcome limited federal intervention to try to ensure a realistic price.

When the N18,500 per tonne mark was reached, the Government told all the parties that while it did not intend to legislate or to fix a price, it wanted those in the field to agree what was realistic and threatened the speculators with charges of economic sabotage.

Since then, the price has come down to around N12,500, *and continues to drop.* The big, legitimate players, however, do not intend to re-enter the market until it reaches the N10,000 level – assuming the terminal price remains stable – and they seem relatively confident that will happen.

In the meantime there is a cocoa boom in Ondo state, which accounts for 69 per cent of the country's production. But the long suffering Nigerian cocoa farmers have tended to spend their windfall on consumer goods or a new roof rather than reinvest in new trees which would take five to seven years to mature.

The emphasis has remained on clearing and rehabilitation of abandoned trees – many of them 20 years old or more – for immediate returns.

Prodnction this year is expected to be between 140,000 tonnes and 150,000 tonnes – about the same as the 1987-88 crop. Even if there is no new planting, experts estimate that Nigeria still has the potential to reach the 300,000 tonnes harvested in 1969.

One thing in the country's favour is that Nigerian beans have the flavour characteristics desired by the British chocolate manufacturers, and so sell at a premium.

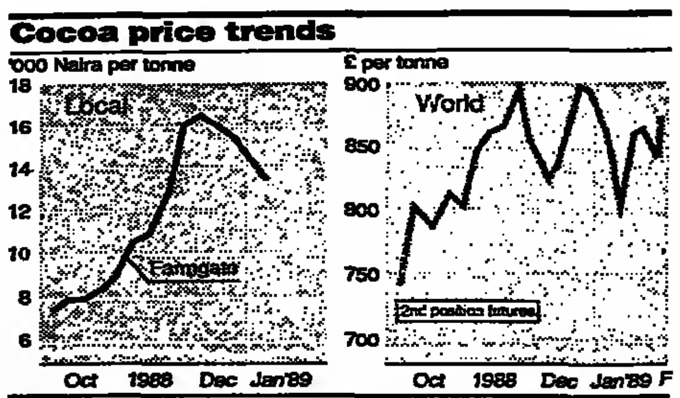
Higher producer prices have also meant that smuggling of the commodity is not so widespread as in the past. But it has not ended. Last year the neighbouring state of Benin – which is not a cocoa producer – exported 19,000 tonnes.

Attempts at adding value to the country'a cocoa exports through processing remain problemetic. There are only three processing factories operating at about 40 per cent capacity. At this rate, they could process abont 90,000 tonnes. Last year, they processed only 5,000 tonnes for Cadbury's which has a considerable *domestic* market *for* chocolate drinks.

The reason for this low level, says Mr Clarke, is that the factory fees are not competitive and they fail to perform on time.

Stephanie Gray

Cocoa price trends



A big social scheme has met a familiar fate

End of the road

MOST NIGERIA watchers would agree that one of the country's most serious problems is not the lack of excellent policy objectives but poor implementation.

It is an observation particularly pertinent to the agricultural sector. Operation Feed the Nation, the Green Revolntion, Back to the Land are the *titles of well-intended policies* which failed in practice.

The latest in the series is the Directorate of Food, Roads and Rural Infrastructure (DFRRI). It was launched with much fanfare in February 1986 and an initial allocation of nearly N1bn – 10 per cent of the country's budget for the financial year.

President Ibrahim Babangida's Government was only six months old and it was anxious to demonstrate that it was prepared to back its declared policy of social and economic justice with action.

Accountable directly to the President, DFRRI's remit was to raise the quality of life of the rural community by providing them with good feeder roads, electricity and potable water.

The directorate, established outside the existing hureaucracy, initially had an impact up and down the country. Isolated communities saw their first boreboles, roads and power poles. There was great excitement about its achievements.

People are not qulte so excited these days. The organisation seems to have lost its way and has been the subject of widespread criticism for wasting money, duplication of effort and non-co-operation with other state or federal government agencies. There have been complaints thet some boreholes that DFRRI claimed had been completed failed to supply water.

It has, perhaps as a result, had its vote in this year's budget slashed to N300m, down *from N500m last year*

In fairness it should be said that it has been delegated an

■ DFRRI

impossible task. Its responsibility is not only provision of water, roads and power. The list includes borticnlture, improved seeds programme, aquaculture development, livestock projects, storage, community listing, adult education, engineering and technology and rural housing

In sbort, it has bitten off more than it can chew.

In a progress report pnblished last year the directorate acknowledges that the most common and serious problem is "the glaring disparity in figures between what the states claim to have been accomplished, what they finally presented for inspection and what is actually achieved.

Tables in the progress report tell their own story. One shows that 15,513 km of rural feeder roads put up for inspection by 16 states visited by "final comprehensive inspection" teams, had been rejected, and only 12,000 km accepted as sound, in phase one of a three part programme to build 90,000 km of roads.

Under its horticulture programme one goal is to produce at least 50m high quality fruit tree seedlings and assorted vegetahle seeds. The programme fell well short of the first phase target of 11.3m, producing only 6.2m seedlings.

In his new year address President Babangida said that the Government had "taken note of some well-meaning criticisms" levelled at the organisation. The Government was determined to ensure that there was "significant improvement" in the directorate's performance this year.

Steps were being taken, he said, to ensure "immediate harmonisation and co-ordination" of the activities of *DFRRI* and the Mass Mobilisation for Economic Recovery, Self Reliance and Social Justice (Mamser) – another government-funded group whose merits are open to debate.

Each of them will collaborate fully with other relevant arms of local, state and federal governments, the President said.

Many observers believe that something more fundamental needs to be done. One suggestion is that the directorate's activities should be confined to roads, water and power. What seems clear is without reorganisation and greater supervision the directorate seems destined to join the list of successive government initiatives which have been well intentioned but have turned out to be deeply flawed.

SG

Ban on imports hits the US

Food for thought for the smugglers

WHEN Mr Alhaji Abubakar Alhaji, the Minister of Budget and Planning, elaborated on the January 1 budget he made special mention of one of Nigeria's most time-honoured occupations – the euphemistically named cross-border movement of goods.

The Government had noted with dismay, he said, that large-scale smuggling of prohibited items had continued unabated in spite of various measures to "eradicate this canker-worm in our economy".

He went on to detail penalties of life imprisonment, not *just for smuggling but for the* transportation, storage, display or sale of such goods.

The main commodities involved are rice and wheat flour which have been making their way across the border with neighbouring Republic of Benin at a rate of 400,000 tonnes of rice and 300,000 tonnes of flour a year ever since import bans were imposed in mid-1985 and January 1987 respectively.

Prohibition of official imports was aimed at increasing domestic production and attaining food self-sufficiency. It has also saved foreign exchange. Imports of the two commodities ran at $600m a year at their peak at the start of the decade.

It immediately excluded US wheat producers form a market which had brought them $250m a year, while US rice growers lost access to a market which had been worth more than $220m a year. Against a background of protectionist cries form Washington, US officials have been trying to get Nigeria to review the ban, so far with no success.

They argue that the measure simply encouraged smuggling, and deprived Lagos of a source of revenue from customs duties. They advocate tariff barriers which would be high enough to provide some protection for local producers, but do not exclude competition altogether.

The ban on wheat imports has been particularly effective. Processing of the grain can hardly be unobtrusive in the country's huge mills. Wheat flour, however, has been another matter entirely, and consignments readily slip across the border.

US officials accept that their market would be severly curtailed now. One result of the ban, they point out, is that local producer prices for wheat have been pushed up to N3,200 a tonne, while poor quality rice fetches N3,500 a tonne.

Yet in terms of domestic rice production, the policy appears to be bringing results. The country is said to be almost 50 per cent self-sufficient – even

■ WHEAT/RICE

though most consumers would prefer the higher quality Thai smuggled product.

Most agriculturalists also believe that Nigeria has great *potential for producing wheat* – although some sceptics argue that the costs are too high. The crop can grow well in the north, but timely application of fertiliser and adequate irrigation are critical factors.

Estimates of Nigerian wheat production so far, however, appear to have been widely off beam. Last year, Kano state confidently announced that it was growing 250,000 tonnes. Careful study by the US Department of Agriculture estimated Nigeria's entire output for 1988 was not more than 50,000 tonnes, and only 10,000 tonnes of it milled.

Since then, one of the Government's ubiquitous task forces has been despatched to encourage production. A survey conducted in January by the News Agency of Nigeria estimated the February/March harvest at 200,000 tonnes for Kano, 30,000 tonnes for Borno, 24,000 tonnes for Kaduna, 18,000 tonnes for Banchi and 16,250 tonnes for Sokoto.

A total of 288,250 tonnes seems overly optimistic and outside observers estimate 100,000 tonnes might be nearer the mark.

SG

Rethink bears fruit

Continued from previous page

funding rural development training programmes and desertification control projects in the far north.

Running projects on a smaller scale, it is capable of greater management efficiency and tighter project monitoring. Of particular note is its N1bn oil-palm belt programme in southern Nigeria, which, by up-grading production on palm oil estates, will allow farmers to take greater advantage of Naira devaluation and export opportunities.

Devaluation has been a double-edged sword for another recently developed sector of Nigerian agriculture – large-scale farming by domestic agro-industrial businesses. While rising import prices and the grain ban have stimulated a market for locally produced and processed food goods, the costs of capital equipment and foreign expertise necessary for this type of farming have climbed steeply, discouraging all but the largest companies. The acquisition of land rights for the formation of large farms also pose considerable difficulties.

The future of Nigerian agriculture rests on development and increased production on small-scale farms. Government economic policies have created the conditions for this growth.

They have not been complimented, however, by a success*ful implementation of ambi*tious national rural development schemes. Until there is a significant improvement in the performance of such groups as the DFRRI, Nigerian farmers will continue to rely on the benefits of more realistic foreign exchange rates, deregulated markets, and the impetus of import substitution.

Nicholas Woodsworth on a city trying to maintain its prosperity

The chill wind of change

LIKE MOST places in the tropics, the city of Kano gets up with the sun. Loudly proclaiming the message that God is great, loudspeakers high in the city's minarets call the faithful to dawn prayer. Women fan cooking fires, battered buses grind their way out onto the streets, and fat-tailed sheep begin their day's browsing among the scraps of paper and vegetable skins in the city's alley-ways.

Kano may rise with the sun, but on many early mornings neither the sun, nor the tropics, are in much evidence in Nigeria's oldest city. Lush green coastal landscapes and balmy breezes may lie scarcely more than an hour's flight away to the south, but here on February mornings the tropics of the tourist brochures are a world away.

This is the middle of the harmattan season, when the chill wind blowing in from the north brings with it tonnes of fine, suspended dust particles from the Sahara desert. Kano then becomes a city lost in the vast, dun-coloured plain on which it sits.

The cold wind finds its way into even the most secret places in the old walled city. It blows into the Emir's palace, whera barefooted guards dressed in thin traditional gowns seek shelter behind the thick buttresses of mud-built reception halls and guest chambers. It whips at the robes of motorcyclists as they ride through town hunched over their handlebars, their heads swathed in protective cloth and their eyes shielded from the dust by wrap-around sunglasses. It tugs at the rags of pinched-lipped bands of beggar boys who, bowls in hand, make the rounds of the ramshackle Kurmi market, singing for their breakfast.

The dust-laden wind irritates even the most stalwart inhabitants of the city, the camels at the old abattoir camel market. On days like these, Kano seems the most desolate, colourless place on earth.

But bleak as it may be during the harmattan season, Kano in its history and traditions is perhaps the most colourful city in all of West Africa.

In its heyday Kano was the third city of the continent after Cairo and Fez. Although its fortunes have declined since colonial times, it remains a stronghold of Islamic culture and clings tenaciously to its centuries-old mercantile reputation.

It was, and still is, a major trading and manufacturing centre with a unique social hierarchy. While Kano's business interests have over the ages shifted from one set of commodities to another, its structure, based on the wealth of long-established local trading families, remains the same.

Kano's commercial and manufacturing legacy has been traced as far back as the seventh century, when primitive iron smelting furnaces were built at the base of the two hills that made Kano a strategically valuable site. Over the centuries Kano grew and became a military force to be reckoned with in local power struggles among a number of similar Hausa states.

The same foreign influences that brought Islam to Kano in the 15th century also opened it up to the outside world and *started it on its long trading* career.

The 1500s saw the establishment of a Portuguese community in Kano – later banished by jealous North African traders – and, oddly enough, a colony of Slavic merchants from Dubrovnik in the Adriatic, then under Ottoman sway.

The Ottomans themselves came to Kano to secure their southern trade route for gold, then much in demand as a hedge against the galloping inflation caused by large supplies of New World silver pouring into Europe. By this time, ivory, slaves and spices were also commodities traded across

■ KANO

the Sahara. At the same time Kano traders conducted extensive operations throughout West Africa itself.

The rise of Kano's powerful capitalist manufacturing class came some 200 years later, when the city and the area it controlled under-went a transformation comparable in some ways to Britain's industrial revolution.

During this period Kano perfected the art of dying cotton cloth with indigo. The highly sought-after product that resulted soon came to clothe all the Touareg tribes in the Sahara and North Africa.

As this market widened, so too did the scope of Kano's economic activities. The need for cloth to dye gave birth to a host of agricultural, processing and exporting industries.

Ever-wealthier dyers would finance the establishment of cotton farms, set up carding, spinning and weaving concerns, and organise sophisticated export businesses, each one of which stamped its cloth with its own particular trademark. A hide and finished leather trade shortly followed – much of the "Moroccan" leather work famous in Europe last century originated in Kano. Textiles remain today the basis of Kano's industrial activity.

Traditional dying can still be seen in Kano today, but the dye-pits – deep, outdoor dye-filled wells sunk into the ground – are in a state of dilapidation, as is much of the city. Kano is no longer the *powerhouse of a "common* market" of Islamic emirates that once stretched as far away as the present day Central African Republic, but a city trying hard to maintain its prosperity in the face of Nigeria's ever-deepening economic problems.

National decline is reflected in Kano's civic decline. Many factories, mills, and tanneries have closed or are running at minimum capacity, the family fortunes amassed in the past having run up against equally formidable problems involving the procurement of raw materials and foreign exchange.

Kano's streets today are a wildly disorganised mixture of slowly crumbling traditional mud architecture, jerry-built breeze-block and corrugated iron constructions, and ambitious modern high-rise projects, the majority of which are unfinished and now stand abandoned, victims of rising prices and shrinking budgets. What visible wealth remains takes the form of the luxurious homes of the very rich, and the charity-run mosques, clinics and Islamic schools they offer to the very poor.

Evidence of Kano's past and hints of its future are perhaps best expressed in its 500-year-old city wall, 13 miles in circumference and constructed entirely of mud. Its nine gates, monuments to northern Nigeria's long history, have *been kept up and are the pride* of the city.

The parts that count, however – the long links between the gates – have been worn ever lower by time, weather, and neglect to the point where, along some extended sections, there remains nothing left at all.

Peaceful journey? Wishful thinking

LIFE IN Lagos has never been straightforward for the business visitor, but two developments make it somewhat more difficult than usual.

The first is the telephone service. A bad system has got worse. Trying to get a line to a Lagos subscriber can be time consuming and frustrating; calls abroad are no better, although in both cases it becomes easier in the evening.

The answer is to arrive in Nigeria with a box of business cards and a stock of headed notepaper. Start your visit by doing your rounds in a taxi hired by the day (about N200, less if it is not air-conditioned) and drop off letters setting out your business, aided by business cards which will help the secretary remember your name.

Follow the same route the next day, and many of your contacts will try to fit you in on the spot. Courier services which guarantee next day delivery to major European cities help make up for the shortcomings in the international telephone system.

The second unhappy development is domestic air travel. For a while the independent airlines offered a reasonably reliable alternative to Nigeria Airways. No more. They are often grounded by fuel or spare part problems, or simply cannot keep up with demand – which means that there is a scramble for seats. A boarding card does not meant you are guaranteed a seat.

Ticket touts – travel advisers, as they prefer to be called – are everywhere. For a fee – sometimes half the cost of the ticket itself – they promise to get you on the flight. They usually deliver, but it is illegal, though the authorities seem to turn a blind eye. Better to arrive well in advance – assuming that is, you can find out when the plane is leaving, for timetables are exercises in wishful thinking. Tickets are extraordinarily cheap – around £15 for the 50 minute flight to Kaduna.

This rate reflects the steady devaluation of the Naira, which has turned Lagos from the most expensive city in Africa for a business visitor to one of the cheapest – at least as far as internal transport and meals are concerned.

Some hotels, such as the Abuja Hilton, are starting to operate a two tier system, payment in Naira for residents, foreign exchange for visitors. All insist on a substantial deposit when you check in.

Abuja, the new Federal capital, is becoming part of a businessman's itinerary, now that the Ministry of Industry has moved there from Lagos. A Hilton bus meets all flights coming in to the city's airport, a short hop from Lagos. (Hilton Abuja Tel 09- 523811)

Arrival at Lagos Airport can be a demanding experience, especially if the air conditioning is not working. It is not worth fighting for a place at the head of the immigration queue; baggage takes a long time to arrive.

■ Business guide

Opinion is divided as to whether it is obligatory to change $100 at the bank in the baggage hall. Some say that new foreign exchange regulations make it unnecessary. If so, word has not yet reached the airport.

A taxi to the city – Victoria Island or Ikoyi – should not cost more than N[illegible]

Accommodation in Lagos

Sheraton: Tel 900930-9, Tlx 27202-3. Close to airport, good base for Ikeja industrial area, but not well placed for the embassies, businesses and banks on Victoria Island and Ikoyi.

Eko Meridien Hotel (formerly Holiday Inn) Victoria Island Tel 615000, Tlx [illegible]

Federal Palace Hotel, V.I Tel 610030/1

Ikoyi Hotel, Ikoyi, Tel 603200-8, Tlx [illegible]

Hilton Hotel, Ikeja, Tel 960604, Tlx 26329

Restaurants

Marvellous Indian food at La Brasserie, Adetokunbo Ademola Street, V.I. Tel 615461

The Italian restaurant in the Atlantic Nightclub, at the Federal Palace Hotel, is excellent. Tel 615710.

Also recommended: Bagatelle, 206-12 Broad Street; continental/Lebanese, Tel 662410.

Michael Holman

Retail food prices have risen sharply, writes Stephanie Gray

Squeeze begins to bite

MANY NIGERIANS are puzzled. Why, after last year's bumper harvests, should the prices of locally grown food be rising so?

The answer lies partly in the fact that a Government ban on *imports of rice and wheat is* proving effective, and much of the maize crop is being used by the breweries. But a further factor is the tendency of producers and traders to hold back supplies *from the market* as the exchange rate weakens (pushing up the cost of agriculture inputs) and the overall cost of living rises.

The consolation is that it could be worse. Two years of drought and poor crops were broken in 1988 with the best rains for two decades. Staple food production rose by an estimated 12.1 per cent over 1987.

Nevertheless, a country which had got used to imported rice and wheat in the 1970s and part of the 1980s, effectively subsidised through an overvalued Naira, is feeling the pinch of bans first imposed in 1985 and 1987.

The ban, designed to stimulate production of local food crops, also covers maize and

■ STAPLES

barley. Foreign exchange savings have been substantial – estimated at $500m a year. But the initial impact was cushioned by large scale smuggling. Government officials believe that as much as 700,000 tonnes of rice and wheat flour were being brought into Nigeria each year, mainly from the Republic of Benin.

At the start of this year, however, the Government cracked down. The result has been dramatic. A loaf of bread which sold for 50 kobo in 1986, rising to N4 towards the end of last year, now costs N10. Almost overnight a 50 kg bag of smuggled rice from Thailand doubled in price to N800 – and as a result locally produced rice, which is of generally poor quality, rose form N350 a bag to N400.

"I've forgotten what it's like to eat rice," said one middle-ranking agriculture official.

The grain import ban has had further widespread effects on the availability and price of other staples – maize, sorghum and millet – as the lion's share of the bumper harvest has been diverted to agro-industrial uses. One of the largest consumers are the breweries, seeking substitutes for barley malt.

Other basic foods have also shot up in price. Pounded yam, gari and fufu, a gluey, high starch dough processed from cassava, have enjoyed renewed popularity as rice and bread become luxuries.

Ten years ago, it would have been very infradig for a middle income Lagosian family to eat gari. Now it appears on the table three times a day, but it is becoming increasingly expensive. Eighteen months ago, a tonne of gari fetched between N800 and N900 a tonne. It now sells for N1,700 a tonne.

It is not only increased demand for these items that has pushed up the price. Mosaic disease hit cassava production in the east, where in some areas people are reported to be going hungry, and disease is affecting last year's yam crop.

The cost of vegetables has also soared, due to higher prices for fertiliser – when it is available – and other inputs. Exorbitant prices have hit the urban dweller much harder than their rural counterparts.

"For too long, Nigerians' expectations have related development to a decline in food prices," says Professor John Falusi, head of the Federal Agriculture Co-ordinating Unit which oversees the World Bank-sponsored Agriculture Development Programmes. These programmes cover most of the country and aim to raise farmers' quality of life.

Consumers had been spoilt for too long, he argues, by years of artificially cheap imported food. "Prices must remain high in the short run if farmers are ever to be more than just drawers of water and hewers of wood."

Sustained high prices to farmers, better feeder roads and wider availability of inputs will all lead to higher production per hectare.

But in some areas land is losing its fertility through intensive cultivation and becoming eroded at an alarming rate. In parts of southern Imo and Anambra states, says Mr Tim Harvard, an agricultural economist, the erosion problem has created "architectural wonders" in the form of enormous *gullys*

Alley cropping, a nutrient restoration technique that mimics traditional shifting (bush fallow) cultivation while allowing intensive farming, is the only development that will save Nigerian agriculture in the long run, maintains Mr Harvard.

Nevertheless he and others connected with agriculture believe that the prospects of Nigeria becoming self-sufficient in staple foods look better than they have done for years.

A government policy document on agriculture published last year estimated that self-sufficiency is attainable within two years for maize, sorghum, millet and cassava. The target is five years for cowpeas, fish, poultry meat and eggs, mutton and goat meat, while self-sufficiency in rice, beef and dairy products is a longer-term prospect.

The record of the past decade shows that official estimates are invariably optimistic, but most observers agree that staple food output has had a substantial boost from Government policies.

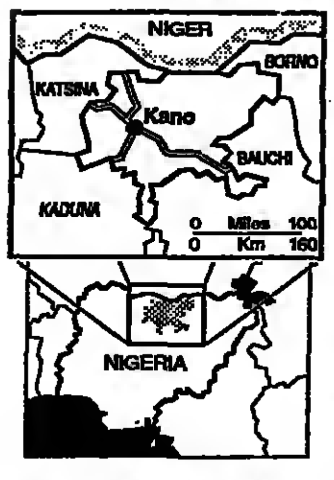
Nicholas Woodsworth on hopes for an economic revival in the north's leading trading centre

City forced to turn to its roots for survival

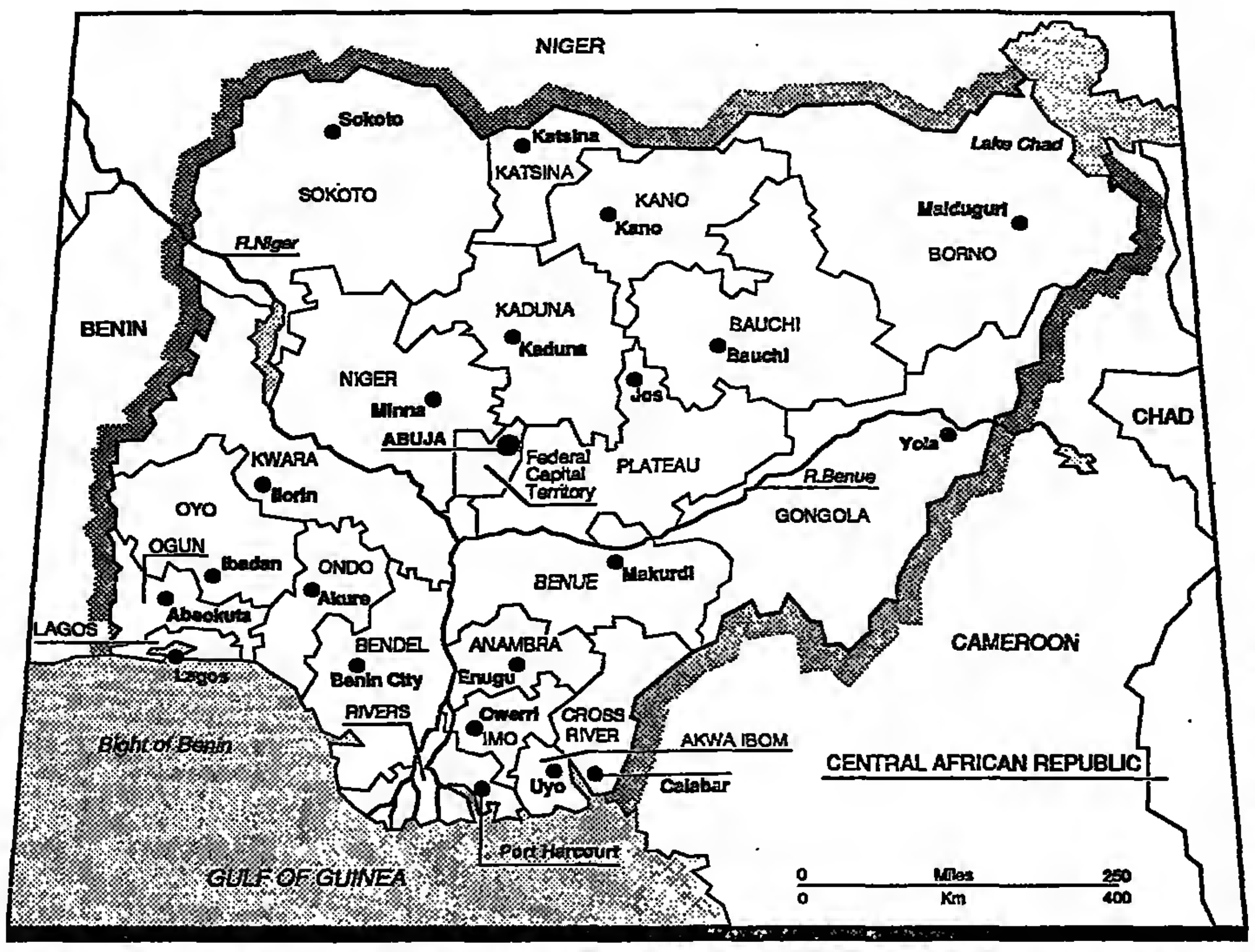
"COMMERCE," says Mr Yusef Dauda, "has always been in our blood." Mr Dauda is a cheerful and talkative car-hire driver who has spent most of his life conducting visiting businessmen around his native city of Kano. To prove his point, he likes to take his passengers to the vast Kurmi market – the oldest in the western Sahel.

"We sell everything from salt to motor-cars. First the old things," Mr Dauda shouts over his shoulder as he plunges into a noisy, narrow alley that leads into the market. Within seconds he has been swallowed up by the crowd. Fearful of being abandoned in the maze of twisting, unsalubrious streets that make up the heart of 1200-year-old Kano, his charges have little choice but to plunge in after him.

Kurmi market is not of this century. Here the most technologically advanced items for sale are aluminium spoons and tin-framed mirrors. Many commodities found in these market stalls have been traded throughout West Africa and across the Sahara desert for centuries.



■ Kano business



Here one can find black antimony powder and gum arabic, medicine pink potash from Niger and mineral salts from Lake Chad. There is palm oil, rice, and kola nuts from the south, maize from the middle belt, and conical piles of millet, sorghum, and guinea corn from Kano state itself.

Among the thousands of items bought and sold here there are also quilted Fulani horse blankets, Hausa slave bracelets and large silver Maria Theresa coins brought over the desert from the long-dead Austrian empire.

To give visitors a taste of the modern side of Kano's commercial life, Mr Dauda drives out of the old walled city through new developments to the industrial estates on the edge of town. As he weaves his way between trucks, bicycles and hooting buses, he points intermittently to left and right.

"The Bata shoe factory ... Gaskiya Textiles – the biggest textile mill in Africa ... the Coca Cola plant ... Raleigh bike factory ... the Fiat tractor-trailer plant ... Flour Mills of Nigeria ..." The tour continues past large oil-seed mills, tanneries, furniture factories and steel engineering works, all a world apart from the Kurmi market.

Despite Mr Dauda's pride in the city's past and present commercial achievements, all is not well in Nigeria's most populous state.

Kano remains what it has always been, the main manufacturing, trading, and distribution centre of the north. But Nigeria's decline since the oil-boom days of the 1970s has hit Kano harder than most cities, and it is now struggling for its economic survival.

Kano's prosperity up until the last decade was based on the commercial trading of locally produced agricultural goods – ground-nuts, cotton, grains, livestock and hides – for consumer items brought from southern Nigeria.

The country's petroleum wealth, however, brought an end to the days of Kano's ground-nut pyramids – the towering piles of sacked cargo. The influx of petro-dollars made food and consumer goods produced outside Nigeria suddenly accessible. As local agricultural production declined, so too did Kano industries based on the processing of northern agricultural commodities.

Kano's business community shifted the focus of its activity, as life became dominated by the allocation of import licences.

In theory, it was an attempt to ensure an efficient allocation of foreign exchange. In practice, the licences became a major area of corruption and political patronage and many recipients either simply sold them for a profit, or became traders on a grand scale, importing goods with an overvalued Naira and making easy and substantial profits on their sale.

Productive investment was rare, and the boom the city enjoyed in the era of petro-dollars was illusory.

The transition to a foreign exchange auction system in 1986 did not solve the problems of hard currency shortages for Kano manufacturers.

Kano businessmen now fall into one of three categories, says a Kano factory owner. "Influence and pay-offs still allow the politically-connected northern elite access to foreign exchange through distant Lagos-based commercial banks. The second group, those of us without connections but some naira capital, are obliged to turn to the Kano black market, where some N10m is turned over daily. The third, the businessmen who can't afford the black market exchange rates, are simply being forced out of business."

The largest proportion of manufacturing concerns in Kano now find themselves in the second and third categories. Foreign exchange and imported raw materials are becoming ever more difficult, if not impossible, to obtain. Many of the factories pointed out by Mr Dauda have in fact closed or are running close to minimum capacity.

Few in Kano believe that the return to civilian rule in 1992 will bring any significant change, although many yearn for a return to the days of import licences.

Hope exists in Kano's agricultural potential. As plants and businesses are closed, more and more people are turning to the land for a living. Good rains and higher cash crop and staple food prices in the past two years have encouraged this tendency.

Desertification in the far north of Kano state, population pressures on the land, and a shortage of water for irrigation have all limited agricultural growth.

None the less, Kano in the recent past has seen the establishment of a number of large-scale wheat farms, increased cotton production, and the beginnings of a fruit and vegetable export business to Europe.

Mr Dauda is right. Commerce has always been the life-blood of Kano. But if it is to survive Nigeria's present economic difficulties, it will have to move closer to its original agricultural roots.

Africa's troubled giant

Continued from page 1

tion system which works at a fraction of its capacity.

This in itself is an unpromising background for the structural adjustment programme.

The danger, however, is that the Government's renewed commitment will be sapped by other forces at work.

President Babangida is pressing ahead with a phased return to civilian rule. A second round of local government elections is due later this year, and will be followed by state assembly and gubernatorial polls, culminating in presidential elections in 1992. This timetable, presumably based on the Government's unrealistic portrayal of structural adjustment as a process that would last from mid-1986 to mid-1988, now looks ill-judged.

The ban on party politics is not due to be repealed until later this year. But discreet campaigning is already well under way. It takes place under the cover of nearly every form of social activity from funeral wakes to hook launches, and is given partisan coverage by the three dozen or so newspapers and magazines, most of which serve as a front for presidential hopefuls.

Not the least of the fears is that when campaigning gets under way, the government limitation of political parties to two could well exacerbate religious tensions in and between the predominantly Moslem north and largely Christian south. Past experience suggests that should tensions lead to violence it is most likely to take place in the north. There is a danger that the parties will broadly reflect a north-south divide.

There is a further, more immediate concern. When the ban is lifted, it will be surprising if politicians do not make vote-seeking pledges which will erode the Government's commitment to the austerity measures, some of which are still to come – such as higher charges for electricity, telephones and petrol.

Given the pressures, it is at least conceivable that the Government might succumb to populist forces and hold back in the implementation of structural adjustments.

The growing preoccupation with 1992 is also distracting some Nigerians from a realistic appraisal of some fundamental changes that have taken place in their country's status over the past decade.

Once the African giant was a key member of the Organisation of Petroleum Exporting Countries, whose pricing and production policy could have far reaching ramifications for the cartel. Today, although the president of OPEC is Mr Rilwanu Lukman, the Nigerian Petroleum Resources Minister, the country needs the stability that Opec provides.

Petrodollars made Nigeria a £1.2bn a year market for British goods, while Washington monitored closely one of its leading oil suppliers. Today British exports are around 40 per cent of what they were, western investment (outside the oil sector) has been steadily written down, and the US sources of oil are widely diversified. Trade relations with all suppliers have been soured by the dispute over billions of dollars of uninsured trade arrears, accumulated in the early 1980s, and finally settled with promissory notes which now trade at barely a fifth of their face value.

Lagos once had political clout in Africa, playing a part in the Angolan and Rhodesian disputes. Today the Government exerts a peripheral influence in the continent's affairs.

The figure that illustrates the giant's plight is \$370, representing the per capita income level in 1987, a dramatic fall from \$670 in 1979. It is thought to have fallen to \$300 last year. This places Nigeria into the Least Developed Country category, entitling it to official development aid. Western donors are already making clear that assistance will be closely monitored – a prospect likely to sit uneasily alongside Nigeria's vigorous assertion of its independence.

Of course, the country's oil and gas riches ensure exports worth billions of dollars for years to come. But the energy sector could well become an enclave economy, whose earnings are inequitably and inefficiently distributed to an impoverished hinterland, where the population of some 115m today is expected to reach 280m by 2015.

It is a bleak scenario. But spelling it out may help concentrate the minds of Nigeria's distracted and hard-pressed policy-makers.